AUG 6 1986

Y 4. Sm 1/2: S. hrg. 99-677

S. HRG. 99-677

THE ENTREPRENEURIAL SPIRIT IN AMERICA

ORIGINAL

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
ENTREPRENEURSHIP AND SPECIAL PROBLEMS
FACING SMALL BUSINESS

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

THE ENTREPRENEURIAL SPIRIT IN AMERICA

MENOMONIE, WI—FEBRUARY 11, 1986
APPLETON, WI—FEBRUARY 13, 1986
MILWAUKEE, WI—FEBRUARY 13, 1986
WASHINGTON, DC—MARCH 27, 1986

COMPLETED

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
61-535 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

(001)

I

BEST COPY AVAILABLE

61-535 0 - 86 - 1

ORIGINAL

COMMITTEE ON SMALL BUSINESS

LOWELL WEICKER Jr., Connecticut, *Chairman*

RUDY BOSCHWITZ, Minnesota	DALE BUMPERS, Arkansas
SLADE GORTON, Washington	SAM NUNN, Georgia
DON NICKLES, Oklahoma	JAMES R. SASSER, Tennessee
WARREN RUDMAN, New Hampshire	MAX BAUCUS, Montana
ALFONSE M. D'AMATO, New York	CARL LEVIN, Michigan
BOB KASTEN, Wisconsin	ALAN J. DIXON, Illinois
LARRY PRESSLER, South Dakota	DAVID L. BOREN, Oklahoma
BARRY GOLDWATER, Arizona	TOM HARKIN, Iowa
PAUL S. TRIBLE, Jr., Virginia	JOHN F. KERRY, Massachusetts

ROBERT J. DOTCHIN, *Staff Director*
MILTON C. WADDELL, Jr., *Counsel*
JOHN W. BALL III, *Minority Chief Counsel*

SUBCOMMITTEE ON ENTREPRENEURSHIP AND SPECIAL PROBLEMS FACING SMALL BUSINESS

BOB KASTEN, Wisconsin, *Chairman*

RUDY BOSCHWITZ, Minnesota	JAMES R. SASSER, Tennessee
BARRY GOLDWATER, Arizona	MAX BAUCUS, Montana

BEST COPY AVAILABLE

CONTENTS

Page

Statement of Senator:
Kasten, Hon. Bob, a U.S. Senator from the State of Wisconsin 1, 51, 107, 199

Statement of:
Bergstrom, John F., president and CEO, Bergstrom Enterprise, Inc 98
Ciccarelli, John, State director, Massachusetts Small Business Development Center, School of Management, University of Massachusetts at Amherst; and president, Association of Small Business Development Centers 281
Darrow, Russ, president, Darrow Management Co., West Bend, WI 179
Dipert, Dan, president, Dan's Odd Jobs, San Marcos, TX 270
Durkin, Richard D., regional representative of the U.S. Small Business Administration 3
Fletcher, Mary Ellen, faculty member, Mount Mary College, Milwaukee, WI 133
Gentz, Merlin, administrator, Instructional & Economic Development Services, Fox Valley Technical Institute, Appleton, WI 71
Haney, Camille, president, the Haney Co., Inc., Milwaukee, WI 150
Harnish, Verne, director, Association of College Entrepreneurs, Wichita State University, Wichita, KS 241
Healy, Michael J., president, Hibernia Brewing Limited, Eau Claire, WI 29
Idzik, Mark E., president, Systems Solutions Plus, Inc., Washington, DC 274
Kao, Dr. John J., assistant professor of business administration, Harvard University, Cambridge, MA 233
Marcus, Stephen, president, chief operating officer, the Marcus Corp., Milwaukee, WI 135
Merritt, Kim, president, Kim's Khocolate, Cumberland, MD 263
Parker, Marshall J., Associate Administrator for Special Programs, Small Business Administration 53, 110
Simek, Ron, president, Tombstone Pizza Corp., Medford, WI 36
Smith, Dale, Dale's Original Gas Station Chili, Green Bay, WI 91
Swain, Hon. Frank S., Chief Counsel, Office of Advocacy, U.S. Small Business Administration 205
Swanson, Dr. Robert S., chancellor, University of Wisconsin-Stout, Menomonie, WI 21

HEARING DATES

February 11, 1986:
Afternoon session 1
February 13, 1986:
Morning session 51
February 13, 1986:
Afternoon session 107
March 27, 1986:
Afternoon session 199

BEST COPY AVAILABLE

THE ENTREPRENEURIAL SPIRIT IN AMERICA

TUESDAY, FEBRUARY 11, 1986

U.S. SENATE,
SUBCOMMITTEE ON ENTREPRENEURSHIP AND
SPECIAL PROBLEMS FACING SMALL BUSINESS,
COMMITTEE ON SMALL BUSINESS,
Menomonie, WI.

The subcommittee met, pursuant to notice, at 2:05 p.m., in Great Hall, New Student Center, University of Wisconsin-Stout, Hon. Bob Kasten (chairman of the subcommittee), presiding.

STATEMENT OF HON. BOB KASTEN, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KASTEN. The subcommittee will come to order. Good afternoon. As chairman of the Senate Small Business Entrepreneurship Subcommittee, I am pleased to be here at Stout today to discuss the subject of entrepreneurship in America.

The term "entrepreneur," has become kind of a buzzword in the last few years describing the modern day Horatio Alger stories; the men and women who have started with nothing but ideas, and who built those ideas into incredible personal successes.

What is an entrepreneur? Well, Webster's Dictionary says an entrepreneur is, "The organizer of an economic venture, one who organizes, owns, manages, and assumes the risks of a business." As I'm sure we'll find out today, an entrepreneur is all of that and more.

The creation of new independent businesses by our entrepreneurs is an important American resource. And we can add to Webster's Dictionary by pointing out the variety of today's entrepreneurs. They create new jobs, they provide new competition to existing businesses, they help to improve product quality, help to reduce prices, add new goods and services never before thought of, advance new technologies, America's competitive stance.

It should be pointed out that not every budding entrepreneur is going to be a success, and certainly not a success overnight, even though entrepreneurship is strongly identified with America's successes. In fact, more than half the new starts in business fail within the first 5 years of operation. Of those, about 90 percent are due to either the lack of managerial and technical experience or the underestimation of capital needed to be successful.

So, although it takes more than an innovative idea to be a successful entrepreneur, you can take heart in knowing some of history's biggest successes have experienced failure. Many of those whom we think of being most successful—in fact, most innova-

BEST COPY AVAILABLE

tive—faced a great deal of difficulty in getting their ideas off the ground.

Do you have an idea of how many Cokes were sold by the Coca-Cola Co. in its 1st year of business? One million? Two million? No. That's not even close. In Coca-Cola's 1st year, 400 bottles of Coca-Cola were sold. What about Henry Ford? The first year he was in the automobile business, Henry Ford went bankrupt. Two years later his second company also failed. But through his tenacity his third corporation, today's Ford Motor Co., has been largely successful.

Around the United States Macy's is thought of as being one of the country's premier department stores. Yet, R.H. Macy went broke in his first three dry good stores. As you can see, through the frustrations and headaches of apparent failure came success. Success that was only attained because the individuals involved had several things going for them.

Had it not been for this breed of risk takers, it would be hard to imagine where we'd be today in America. In fact, somewhere along the line, with every business you see today, a risk of some sort was involved; whether it was introducing a new product, expanding into a new area, creating a new service that no one thought possible, or making other changes. So it doesn't take a genius to figure out that no entrepreneur is going to be in the Fortune 500 right from the start. The entrepreneur almost always starts a new business as a one or two person operation.

It's through the small businesses of America that most of our work force today is employed. And we should note that small business is one of the pillars upon which our economy rests.

Just a couple of facts, statistics. Between 1976 and 1982, approximately 1.9 million jobs were created in Wisconsin alone. Small firms generated 51.6 percent of new jobs in the State. In 1982, of the 110,000 employee establishments recorded in our State, 89 percent were small businesses with fewer than 100 employees.

To give you an idea of new business startups, over 6,500 new businesses started in 1984 alone in Wisconsin. Six thousand five hundred new businesses in Wisconsin in 1984 alone. If that figure sounds large, I think it's important to consider that Wisconsin, with that huge number, ranked 33rd of the 50 States in the number of small business startups. That means that America was literally booming with small business last year. It should be obvious that small business is where the jobs are, where opportunities and success can be found.

Today we're here at Stout because it's important for all of us to know more about the entrepreneurial movement in America. I should say that this is part of a series that I'm having as chairman of the Small Business Subcommittee. We're having another hearing in the Fox River Valley later this week, and then down in Milwaukee at Mount Mary College, in every case taking and spotlighting successful entrepreneurs and talking about the importance of small business, but most importantly the opportunities for small business, particularly for young people such as the people who are in our audience today.

We're at Stout, I said, because it is important to know more about the entrepreneurial movement in America and in Wisconsin.

BEST COPY AVAILABLE

Years ago, when individuals like Henry Ford were getting started, there was no government assistance available that could provide guidance. Now government is active on all levels in business development.

One of the most noteworthy is certainly the Small Business Administration. And today we are fortunate that we'll be hearing from the regional representative of this Federal agency's Chicago region, Mr. Dick Durkin. Jim Sanders, who is the head of the Small Business Administration, was scheduled to be here with us today. He was going to fly out from Washington, but last night we learned that the flu hasn't only been limited to the State of Wisconsin in the last couple of months, and Jim Sanders announced that he was flat on his back and unable to be with us. So, he sent instead the regional representative from the Chicago office of the SBA who will be testifying here.

Educational institutions, like UW-Stout, are also playing a vital role in this overall effort toward business development. I chose to hold this meeting on this campus because of the excellent work you have done with your small business incubators. Currently it is one of the many sides to the business program which your chancellor, Robert Swanson, is going to address today.

What you may find the most inspirational from this hearing, though, are the modern success stories which we have assembled here today. Rather than dwell on past figures from history, it is important to realize that there are many success stories not only in New York or Los Angeles or Houston or Chicago or other places, but success stories right here in Wisconsin, in Eau Claire, Chippewa Falls, and right here in Menomonie.

First we're going to hear from Dick Durkin, who is the regional representative for the Small Business Administration in region 5, which includes Wisconsin, representing the head of the Small Business Administration, Mr. Jim Sanders.

STATEMENT OF RICHARD D. DURKIN, REGIONAL REPRESENTATIVE OF THE U.S. SMALL BUSINESS ADMINISTRATION

Mr. DURKIN. Thank you very much, Senator, and it's a pleasure to be here. Jim sends his regrets, as you know. We are discovering that the economic health of America depends on the health of small businesses and entrepreneurs. The 1980's are the decade of the entrepreneur. The numbers tell a compelling story.

New business incorporations are reported in record breaking numbers, almost 2 million in only the last 3 years. More than 20 million new jobs in 10 years were generated by small business entrepreneurs. And I might add parenthetically, while I was in Europe representing Mr. Sanders last fall, the Europeans were asking us how we do it. They want to learn from us. But I said it's part of our fiber, and they will have to get some of that fiber.

Along the way we have come with new industries and new products, some of which we're going to hear from today. Two out of every three new ones are small business generated; everything from erasable memory computer chips to fast growing regional airlines, like Midway, which I flew out of Chicago to Minneapolis this morning.

BEST COPY AVAILABLE

We should ask ourselves the basic question about our new buzzword. Why is it there? Why are more men and women taking the risk of becoming their own bosses? Why are more and more business school graduates forsaking low risk job opportunities with large firms and starting their own enterprises or joining small firms? Why are so many big corporate executives dropping out to become independent entrepreneurs?

For one answer we can look to the continuing independent spirit that has lived in this country from the beginning. Being your own boss has always been an American dream. Then, again, we can look to the personal and physical restraints associated with corporations.

We should also look to the new attitude of Government. Government cannot and certainly should not order a man or a woman to become an entrepreneur. Government cannot dictate to any company, large or small, what product it should make or how many. Such an industrial policy would be detrimental to the individual, to the company, and to the American free society we enjoy today.

Government can create an economic climate to encourage entrepreneurship, to encourage people to start their own businesses, to encourage the creation of new ideas, new products, and new technology.

The U.S. Small Business Administration has been in the business of helping American entrepreneurs since 1953. Congress created our small, independent executive branch agency and defined its mission; to aid, counsel, assist, and protect the interests of small business concerns in order to preserve free competitive enterprise. We have been carrying out that mission ever since, and in so doing have been boosting economic development throughout the country.

SBA has made some 500,000 business loans since 1953, worth about $40 billion. In the State of Wisconsin alone. SBA has approximately 9,000 business loans in our portfolio of nearly $1 billion. This financial assistance has enabled thousands of entrepreneurs to achieve business success that might have been impossible without our help.

The long-term loss rate on these business loans have been slightly under 5 percent; an excellent record when you consider that our loans go mostly to clients who are turned down initially by private lenders who are considered high risk. Under the present administration, SBA is turning over more loan paperwork and administration to the private sector, better utilizing the Agency's limited personnel.

In the financial area, SBA recently instituted a loan pooling agreement with selected banks. One of these is the First Wisconsin National Bank of Milwaukee. Through these pooling agreements, investors are offered an opportunity to buy into a pool of SBA loans. These loans have the full faith and credit guarantee of the Federal Government. This arrangement makes more funds available for small businesses lending by private institutions and often at lower rates.

To spur economic development, SBA licenses small business investment companies which make long-term loans and equity capital investments to small firms. The firms receiving the basic as-

BEST COPY AVAILABLE

sistance are usually new and emerging industries that cannot find capital elsewhere.

The SBIC, as I mentioned, are licensed by SBA and have invested $5 billion in more than 60,000 small businesses, including some of our noteworthy successes; Apple Computer, Federal Express, and Wang Laboratories, and People Express, to name a few.

The Small Business Innovation Research Program, signed into legislation by President Reagan in 1982, and probably of great interest to Stout because of their technological interest, is just another major economic development tool directing an increasing share of research contracting to small companies.

Under this exciting and promising program, small firms received $100 million in R&D work in 1984, and about $200 million by 1985.

Through its State and local development programs, working through community leaders in determining neighborhoods and small businesses that need special attention, leaders form development companies. We certify these at SBA and provide financial assistance through them. In 3 years, SBA certified almost 600 development companies throughout the country and loaned more than 4,500 small businesses over $900 million.

SBA's State and local programs are excellent examples of the Government and private sector working together to save businesses, creating jobs, and revitalizing local communities. And, I might add, under Administrator Sanders we have spent more time finding ways to link to the States and local communities, as well as universities, in getting SBA out of the direct service and into more partnership arrangements with both the public and private sectors.

Three out of every four businesses fail during their first 3 to 5 years. Senator, you mentioned, the failure is due to poor management and/or poor marketing. Often the businesses don't realize that they don't have the kind of skills needed, but think they need money and often search for money when actually they need a different kind of help, which we are trying to move to now in a lot of our programs.

Incubators, of course, which we're going to hear about today, at Stout, again are one attempt to reduce small business failures by overcoming some of the obstacles that small businesses must face in the marketplace.

Currently, for sure, we know about Wisconsin having an incubator—has at least two going; one in Madison and one we're going to hear about here. The one in Madison began in 1984 and housed about 12 firms and employes 25 people. It has already demonstrated that it can make a contribution to that community. The facility, since 1984, has been operated and is now self-supporting, which is one of the tenants of an incubator program; to find a way to provide the help and not have to look for Federal funding to do it.

All of these firms and incubators share secretarial, receptionist, telephone answering service, copiers, and other types of equipment, and often technical equipment that no one small business might be able to afford if they had to pay for the equipment themselves.

SBA has played a key role in raising the awareness to the Nation of incubators. In fact, in 1983 and 1984, we had a series of conferences across the country not trying to develop, Senator, a new program of incubators, but trying to develop an awareness at

BEST COPY AVAILABLE

the local levels so that the people themselves at the grassroots level could learn how to do it and begin to build their own, as we will hear from Stout soon.

I think it is fair to conclude that SBA has played a role in assisting the entrepreneur, although, as you mentioned earlier, there is no way any agency can serve all of them. What entrepreneurs always have wanted and needed is a society, a Government whose policies are steady and continuous and predictable. Such policies are vital if entrepreneurs are to be encouraged to start new businesses, to expand old ones, to determine their own long-range programs. Entrepreneurs cannot be yanked up and down like a yo-yo because of changing and unfair and unproductive Government actions.

President Reagan has set the Nation on such a steady and continuous course. His administration has given the Nation a new sense of independence. His administration is a major reason why more and more people are saying America is enjoying a rebirth of the entrepreneur.

As you can see, Senator, entrepreneurship is not dead. It is alive and kicking; kicking to make room for those who still believe in the American dream, who are not afraid to join together with others just like themselves. Entrepreneurs are willing to seek assistance from their community and the Federal Government so that further and together our economy can grow. These are the risk takers, and thank God for them.

[The prepared statement of Mr. Sanders follows:]

BEST COPY AVAILABLE

SBA

U.S. Small Business Administration
Washington, DC 20416

STATEMENT OF

JAMES C. SANDERS
ADMINISTRATOR

U. S. SMALL BUSINESS ADMINISTRATION

FUTURE OF ENTREPRENEURSHIP

COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON ENTREPRENEURSHIP

UNIVERSITY OF WISCONSIN-STOUT

MENOMONIE, WISCONSIN

FEBRUARY 11, 1986

BEST COPY AVAILABLE

SUDDENLY, IT SEEMS, AMERICA IS ENJOYING A NEW VOGUE. A NEW BUZZWORD: ENTREPRENEURSHIP OR ENTREPRENEUR"CHIC".

REPORTS OF MODERN ENTREPRENEURS BEGINNING THEIR TINKERING IN A GARAGE AND ENDING UP AS MILLIONAIRES, AT AGE 30 PROLIFORATE.

IF WE REFLECT BACK ON OUR OWN HERITAGE, ENTREPRENEURSHIP HAS BEEN A BASIC PART OF AMERICAN LIFE AND THE AMERICAN ECONOMY. OUR COUNTRY WAS FOUNDED BY A REBELLIOUS BAND OF SHOPKEEPERS AND ARTISANS.

WHAT WE ARE EXPERIENCING IS A REDISCOVERY OF WHAT ENTREPRENEURS MEAN TO OUR SOCIETY. WE ARE DISCOVERING SMALL BUSINESSES ACCOUNT FOR TWO OUT OF EVERY THREE NEW JOBS CREATED, PROVIDE JOB TRAINING TO NEW WORKERS, EMPLOY THE YOUNG, WOMEN AND THE ELDERLY.

BEST COPY AVAILABLE

WE ARE REDISCOVERING THAT THE ECONOMIC HEALTH OF AMERICA DEPENDS ON THE HEALTH OF SMALL BUSINESS AND THE ENTREPRENEURS.

THE 1980'S ARE THE DECADE OF THE ENTREPRENEUR. THE NUMBERS TELL A COMPELLING STORY:

NEW BUSINESS INCORPORATIONS ARE REPORTED IN RECORD-BREAKING NUMBERS -- ALMOST 2 MILLION IN ONLY THE LAST THREE YEARS.

MORE THAN 20 MILLION NEW JOBS IN 10 YEARS GENERATED BY SMALL BUSINESS ENTREPRENEURS.

AND ALONG THE WAY HAVE COME NEW INDUSTRIES AND NEW PRODUCTS. TWO OUT OF EVERY THREE NEW ONES ARE SMALL BUSINESS GENERATED. EVERYTHING FROM ERASABLE MEMORY COMPUTER CHIPS TO FAST-GROWING REGIONAL AIRLINES.

BEST COPY AVAILABLE

WE SHOULD ASK OURSELVES A BASIC QUESTION ABOUT OUR NEW BUZZWORD:

WHY?

WHY ARE MORE MEN AND WOMEN TAKING THE RISK OF BECOMING THEIR OWN BOSSES? WHY ARE MORE AND MORE BUSINESS SCHOOL GRADUATES FORSAKING LOW-RISK JOB OPPORTUNITIES WITH LARGE FIRMS AND STARTING THEIR OWN ENTERPRISES OR JOINING SMALL FIRMS? WHY ARE SO MANY BIG CORPORATE EXECUTIVES DROPPING OUT TO BECOME INDEPENDENT ENTREPRENEURS?

FOR ONE ANSWER, WE CAN LOOK TO THE CONTINUING INDEPENDENT SPIRIT THAT HAS LIVED IN THIS COUNTRY FROM THE BEGINNING. BEING YOUR OWN BOSS HAS ALWAYS BEEN AN AMERICAN DREAM.

THEN AGAIN, WE CAN LOOK TO THE PERSONAL AND PHYSICAL RESTRAINTS ASSOCIATED WITH CORPORATIONS.

BEST COPY AVAILABLE

WE ALSO SHOULD LOOK TO THE NEW ATTITUDE OF GOVERNMENT. GOVERNMENT CANNOT, AND CERTAINLY SHOULD NOT, ORDER A MAN OR WOMAN TO BECOME AN ENTREPRENEUR. GOVERNMENT SHOULD NOT DICTATE TO ANY COMPANY, LARGE OR SMALL, WHAT PRODUCT IT SHOULD MAKE, OR HOW MANY. SUCH AN INDUSTRIAL POLICY WOULD BE DETRIMENTAL TO THE INDIVIDUAL, TO THE COMPANY AND TO AMERICAN SOCIETY.

GOVERNMENT CAN CREATE AN ECONOMIC CLIMATE TO ENCOURAGE ENTREPRENEURSHIP, TO ENCOURAGE PEOPLE TO START THEIR OWN BUSINESSES AND TO ENCOURAGE THE CREATION OF NEW IDEAS, NEW PRODUCTS, AND NEW TECHNOLOGIES.

THE U.S. SMALL BUSINESS ADMINISTRATION HAS BEEN IN THE BUSINESS OF HELPING AMERICAN ENTREPRENEURS SINCE 1953. CONGRESS CREATED OUR SMALL, INDEPENDENT EXECUTIVE BRANCH AGENCY AND DEFINED ITS MISSION:

BEST COPY AVAILABLE

"TO AID, COUNSEL, ASSIST AND PROTECT...THE INTERESTS OF SMALL BUSINESS CONCERNS IN ORDER TO PRESERVE FREE COMPETITIVE ENTERPRISE."

WE HAVE BEEN CARRYING OUT THAT MISSION EVER SINCE, AND IN DOING SO HAVE BEEN BOOSTING ECONOMIC DEVELOPMENT THROUGHOUT THE COUNTRY.

SBA HAS MADE 500,000 BUSINESS LOANS WORTH $40 BILLION. IN THE STATE OF WISCONSIN, SBA HAS APPROXIMATELY 9,000 BUSINESS LOANS IN OUR PORTFOLIO FOR $910.5 MILLION. THIS FINANCIAL ASSISTANCE HAS ENABLED THOUSANDS OF ENTREPRENEURS TO ACHIEVE BUSINESS SUCCESS THAT MIGHT HAVE BEEN IMPOSSIBLE WITHOUT SBA HELP.

THE LONG-TERM LOSS RATE ON THESE BUSINESS LOANS HAS BEEN SLIGHTLY UNDER FIVE PERCENT -- AN EXCELLENT RECORD WHEN YOU CONSIDER THAT OUR LOANS GO MOSTLY TO CLIENTS WHO ARE TURNED DOWN INITIALLY BY PRIVATE LENDERS.

BEST COPY AVAILABLE

UNDER THE PRESENT ADMINISTRATION, SBA IS TURNING OVER MORE LOAN PAPERWORK AND ADMINISTRATION TO THE PRIVATE SECTOR. BETTER UTILIZING THE AGENCY'S LIMITED PERSONNEL.

IN THE FINANCIAL AREA, SBA RECENTLY INSTITUTED A LOAN POOLING AGREEMENT WITH SELECTED BANKS. ONE OF THESE IS THE FIRST WISCONSIN NATIONAL BANK OF MILWAUKEE.

THROUGH THESE POOLING AGREEMENTS, INVESTORS ARE OFFERED THE OPPORTUNITY OF BUYING INTO A POOL OF SBA LOANS. THESE LOANS HAVE THE FULL FAITH AND CREDIT GUARANTY OF THE FEDERAL GOVERNMENT.

THIS POOLING ARRANGEMENT MAKES MORE FUNDS AVAILABLE FOR SMALL BUSINESS LENDING BY PRIVATE INSTITUTIONS, AT LOWER INTEREST RATES.

TO SPUR ECONOMIC DEVELOPMENT SBA LICENSES SMALL BUSINESS INVESTMENT COMPANIES. SBICs ARE PRIVATE FIRMS WHICH MAKE

BEST COPY AVAILABLE

LONG-TERM LOANS AND EQUITY CAPITAL INVESTMENTS IN SMALL FIRMS. THE FIRMS RECEIVING SBIC ASSISTANCE ARE USUALLY NEW AND EMERGING INDUSTRIES.

SBICs LICENSED BY SBA HAVE INVESTED $5 BILLION IN MORE THAN 60,000 SMALL BUSINESSES. APPLE COMPUTER, FEDERAL EXPRESS, WANG LABORATORIES AND PEOPLE EXPRESS ARE A FEW OF THE COMPANIES RECEIVING THIS ASSISTANCE.

THE SMALL BUSINESS INNOVATION RESEARCH PROGRAM, SIGNED INTO LEGISLATION BY PRESIDENT REAGAN IN 1982, IS ANOTHER MAJOR ECONOMIC DEVELOPMENT TOOL. THIS PROGRAM DIRECTS AN INCREASING SHARE OF RESEARCH CONTRACTING TO SMALL COMPANIES.

UNDER THIS EXCITING AND PROMISING PROGRAM SMALL FIRMS RECEIVED $100 MILLION IN R&D WORK IN 1984 AND ABOUT $200 MILLION IN 1985.

BEST COPY AVAILABLE

SBA, THROUGH ITS STATE AND LOCAL DEVELOPMENT PROGRAM, WORKS WITH COMMUNITY LEADERS IN DETERMINING NEIGHBORHOODS AND SMALL BUSINESSES THAT NEED SPECIAL ATTENTION. THESE LEADERS THEN FORM DEVELOPMENT COMPANIES. SBA MUST FIRST CERTIFY THE COMPANIES BEFORE PROVIDING FINANCIAL ASSISTANCE. IN THREE YEARS, SBA HAS CERTIFIED ALMOST 600 DEVELOPMENT COMPANIES. THESE COMPANIES LOANED MORE THAN 4,500 SMALL BUSINESSES OVER $900 MILLION.

SBA'S STATE AND LOCAL DEVELOPMENT PROGRAM IS AN EXCELLENT EXAMPLE OF GOVERNMENT AND PRIVATE SECTOR WORKING TOGETHER TO SAVE BUSINESSES, CREATE JOBS AND REVITALIZE LOCAL COMMUNITIES.

THREE OUT OF FOUR SMALL BUSINESSES FAIL DURING THEIR FIRST 3-5 YEARS. REASONS FOR FAILURE INCLUDE POOR MANAGEMENT AND/OR POOR MARKETING, LACK OF ADEQUATE CASH FLOW AND INSUFFICIENT CAPITAL INVESTMENT. INCUBATORS ARE ONE ATTEMPT TO REDUCE SMALL BUSINESS FAILURES BY OVERCOMING SOME OF THESE OBSTACLES.

BEST COPY AVAILABLE

INCUBATORS CAN NURTURE THE BUSINESSES IN THEIR EARLY STAGES. THEY OFFER BELOW-MARKET RENTS, ACCESS TO SHARED EQUIPMENT, AND SERVICES, SUCH AS MANAGEMENT ASSISTANCE, RECEPTIONISTS, SECRETARIES, COPYING MACHINES, ETC.

WHILE SOME OPERATE ON A FOR-PROFIT BASIS AND HAVE THE CAPACITY TO OFFER VENTURE CAPITAL; OTHERS HAVE A GOAL OF JOB CREATION AND ECONOMIC REJUVENATION. A GROWING NUMBER OF COMMUNITIES AROUND THE COUNTRY ARE EXPERIMENTING MORE AND MORE WITH SMALL BUSINESS INCUBATORS AS ONE ELEMENT OF THEIR BUSINESS ECONOMIC DEVELOPMENT.

CURRENTLY, WISCONSIN HAS IN OPERATION TWO SUCH INCUBATORS, ONE THAT IS SCHEDULED TO OPEN IN THE SPRING, AND A NUMBER OF OTHERS THAT ARE IN THE DEVELOPMENT OR PLANNING STAGES.

THE MADISON BUSINESS INCUBATOR WAS THE FIRST TO OPEN IN WISCONSIN IN OCTOBER OF 1984. IT HOUSES 12 FIRMS AND EMPLOYS 25 PEOPLE.

BEST COPY AVAILABLE

THE INCUBATORS ARE LOCATED IN A RENOVATED OFFICE BUILDING. FUNDS WERE MADE AVAILABLE THROUGH A FEDERAL COMMUNITY DEVELOPMENT BLOCK GRANT AND A PRIVATE NON-PROFIT ORGANIZATION CALLED "WISCONSIN FOR RESEARCH." THE INITIAL MONEY FUNDED THE FACILITY THROUGH THE FIRST YEAR OF OPERATION.

THE FACILITY IS NOW SELF SUPPORTING.

THE TENANTS ARE HALF START-UP FIRMS AND HALF HOME BASED BUSINESSES WHO WANTED TO EXPAND. THEY INCLUDE A COMPANY PRODUCING A WEATHER PRODUCT USED IN MARINE WEATHER TRANSMITTING, SEVERAL COMPUTER RELATED BUSINESSES, ENGINEERING CONSULTING FIRMS, AND A MARKET RESEARCH FIRM.

ALL OF THESE FIRMS SHARE SECRETARIAL, RECEPTIONIST, TELEPHONE ANSWERING, COPIER, CONFERENCE ROOM, AND KITCHEN FACILITIES. THIS KEEPS THEIR OVERHEAD COSTS DOWN.

BEST COPY AVAILABLE

THE SECOND INCUBATOR TO OPEN WAS THE ADVOCAP SMALL BUSINESS CENTER OF FOND DU LAC, WISCONSIN. ADVOCAP HAS ONLY BEEN OPEN SINCE JULY 1985 BUT THEY ALREADY HAVE 8 FIRMS AND EMPLOY 33.

ADVOCAP IS A COMMUNITY ACTION AGENCY WHICH HAS BEEN AROUND FOR ABOUT TWENTY YEARS. THEY PURCHASED A BUILDING FROM THE COUNTY WITH A $ 15.000 GRANT FROM THE WISCONSIN COMMUNITY ECONOMIC DEVELOPMENT FINANCE AUTHORITY. OPERATION COSTS COME FROM TENANT RENTS SUBSIDIZED WITH MONEY FROM THE ADVOCAP OPERATING BUDGET. THE BUILDING WAS BUILT AS A FEDERAL WORKS PROJECT IN THE 1930'S AS A POST OFFICE AND FEDERAL BUILDING.

THE TENANTS WERE ALL START UP FIRMS, INCLUDING A FIRM THAT MARKETS AND INSTALLS COMPUTERIZED HEATING AND AIR CONDITIONING, A SMALL HOME CONTRACTING COMPANY, A SILK SCREEN AND PRINTING COMPANY, AND A CLOCK REPAIR BUSINESS.

BEST COPY AVAILABLE

SBA HAS PLAYED A KEY ROLE IN RAISING THE AWARENESS OF THE NATION, THE STATES, AND THE COMMUNITIES OF THE OPPORTUNITIES AFFORDED SMALL BUISNESSES HOUSED IN INCUBATOR FACILITIES.

MR. CHAIRMAN, I THINK IT IS FAIR TO CONCLUDE THAT SBA HAS PLAYED A ROLE IN ASSISTING THE ENTREPRENEUR.

WHAT ENTREPRENEURS ALWAYS HAVE WANTED -- AND NEEDED -- IS A SOCIETY, A GOVERNMENT, WHOSE POLICIES ARE STEADY AND CONTINUOUS. SUCH POLICIES ARE VITAL IF ENTREPRENEURS ARE TO BE ENCOURAGED TO START NEW BUSINESSES, TO EXPAND OLD ONES, TO DETERMINE THEIR OWN LONG-RANGE PROGRAMS. ENTREPRENEURS CANNOT BE YANKED UP AND DOWN LIKE A YO-YO BECAUSE OF CHANGING AND UNFAIR AND UNPRODUCTIVE GOVERNMENT ACTIONS.

PRESIDENT REAGAN HAS SET THE NATION ON SUCH A STEADY AND CONTINUOUS COURSE. HIS ADMINISTRATION HAS GIVEN THE NATION A NEW

BEST COPY AVAILABLE

SENSE OF INDEPENDENCE. HIS ADMINISTRATION IS A MAJOR REASON WHY MORE AND MORE PEOPLE ARE SAYING THAT AMERICA IS ENJOYING A REBIRTH OF THE ENTREPRENEUR.

AS YOU CAN SEE MR. CHAIRMAN, ENTREPRENEURSHIP IS NOT DEAD. IT IS ALIVE AND KICKING. KICKING TO MAKE ROOM FOR THOSE WHO STILL BELIEVE IN THE AMERICAN DREAM, WHO ARE NOT AFRAID TO JOIN TOGETHER WITH OTHERS JUST LIKE THEMSELVES. ENTREPRENEURS WHO ARE WILLING TO SEEK ASSISTANCE FROM THEIR COMMUNITY AND THE FEDERAL GOVERNMENT SO THAT, TOGETHER, OUR ECONOMY CAN GROW. THESE ARE THE RISK TAKERS AND THANK GOD FOR THEM.

BEST COPY AVAILABLE

Senator KASTEN. Dick, thank you. Before we go on to our next witness, I thought I'd explain the procedure we're going to take here today. Each of the witnesses will give a brief statement, and then we're going to open up for questions. I have some questions prepared, but there are supposed to be some cards on some of the chairs in the audience. If any of you have questions as we get on into this, please fill out your question on the card. There will be a way somehow to get the cards back down to us. We'll sort them out and we'll ask these entrepreneurs questions on your behalf, if there are questions that occur during the hearing.

Our next witness is our host, and we want to say thank you very much, Chancellor Swanson, for making the facilities and arrangements available to us. I'm told that UW-Stout is in fact named after a State senator, but I might be the only U.S. Senator who has been here in the last several years certainly, and clearly the first to be in this wonderful new facility.

But we thank you very, very much for your hospitality. We look forward to listening now to your testimony explaining how Stout is preparing the students here for a future in business.

Chancellor Swanson.

STATEMENT OF DR. ROBERT S. SWANSON, CHANCELLOR, UNIVERSITY OF WISCONSIN-STOUT, MENOMONIE, WI

Dr. SWANSON. On behalf of the university staff and our students, I want to welcome you, Senator Kasten, the subcommittee, and our distinguished guests who are testifying today. Stout is indeed honored to have our campus be the site for this hearing today. I believe this is the first congressional hearing that we have ever held on this campus.

Bob Pricer, who is the state director of the Wisconsin Small Business Development Center Program, also asked me to thank you for your longstanding support of this university's role in furthering and strengthening entrepreneurs. Your introduction of the original SBDC bill, when you were a Member of the House, is certainly viewed as an innovative measure which has lasted a long time and has been very valuable to all of us.

At Stout, we look forward to an expanded role through our SBDC Program as we intensify our efforts in entrepreneurship. I would like to use just a few slides now to illustrate some of the points that I'll be making.

Stout's history and tradition are closely linked to the growth of industries in this country. In the founding of this institution, almost 100 years ago now, Senator James Huff Stout, who was a State senator in Wisconsin, was strongly influenced by the Industrial Revolution that was sweeping the country at the time. The early course content of this university—which was called an institute then—was influenced by the crafts and industries that were emerging in the late 1800's. As you look at these shops and laboratories, you'll see that they're quite different from those today.

We're convinced that the future economic development is dependent upon our ability to build partnerships between the university and industry. Stout has actively been pursuing that course for

BEST COPY AVAILABLE

several decades, but I think with increased emphasis in the last 5 or 10 years.

Within the UW system, Stout has been designated as a special mission university. There are only two of us that are so designated among the 13 universities in the system. Our mission and thrusts statement reflects Stout's commitment to new business ventures. We revise our thrust statements every 2 years. The current one, which was just approved in January of this year, has 11 thrusts.

Thrust No. 5 calls for Stout to promote applied research and public service activities with a focus on societal problems. Thrust 11 is a brand new one which calls for Stout to promote Wisconsin's economic development through instruction, public service, and applied research.

Stout has a statewide mission in programs that relate to industry, technology, home economics, applied art, teacher education, and the helping professions. Several of Stout's programs in its special fields are among the largest in the world. Our programs in hotel and restaurant management, industrial and applied technology, food service administration, applied mathematics, industrial and graphic design, to name but a few, reflect the needs of Wisconsin in service and manufacturing industries.

Stout serves industry through a mechanism that we call a center. We have 12 or 15 of these centers on the campus. This slide illustrates several of them. Our centers include the center for innovation and development; the center for vocational, technical and adult education; the small business development center, with a technical testing mission; the employer assistance center; the safety and loss control center; industrial design center—and, incidentally, that group is in Italy at this time with an innovative design in a new bathroom for the disabled—projects with industry; market research center; and the vocational development center. Stout maintains a co-op program for its students with industry as well as internships in industry. We have a thriving incubator program which has been mentioned previously.

Incubators are an investment by higher education in the future. Stout recognizes that these incubator centers create job opportunities and payrolls. Stout's incubator program provides facilities, access to faculty and students, assistance with prototypes, planning, and engineering.

Stout has worked with three clients to date. Trans Lab was our first client and is our first incubator graduate, so to speak. Trans Lab is a diversified technology company which has now moved out of our incubator center and is in its own building adjacent to the campus. Trans Lab has developed a number of things, but among them is a unique system for assembling electronic components, and it's also developed a series of industrial robots which they manufacture, as well as several other products.

If you have time, we hope that you will take the opportunity to visit Trans Lab, which is only about a block and a half from where we are sitting.

CONCAD, a current incubator client, develops computer systems for small businesses, particularly in the field of architecture, engineering and drafting. Wak-Ease, a company that manufactures pet leads, joined Stout's incubator program this past December. Stu-

COPY AVAILABLE

dent teams are working with the company in the area of design, tooling, production, and sales.

We have the capacity for six incubator clients at Stout, and each one of these clients may remain here for a maximum of 3 years before relocating. We hope, of course, that they'll stay in the area, and preferably right around Menomonie, so that we can continue to work with them.

Our Projects with Industry Program is another important link to industry. It was written up in the Eau Claire Leader-Telegram just yesterday. That program placed 174 persons with disabilities in competitive employment positions last year. In the last 3 years, 450 persons have been placed.

The primary goal of Stout, of course, is education. We feel that we're doing a good job in this area by educating students who find employment in their fields of work. Last year, and our placement report was just released the other day, we showed a placement rate of 94 percent of students, with most of them placed in the field for which they were prepared. That has been true for 15 or 20 years. More than 200 national companies will visit our campus this year to recruit people from our graduates.

At Stout, and throughout the UW system, there are faculty and staff who have the knowledge and skills needed by industry. We are constantly developing relationships that facilitate industry and education in working together. I'm the chairman of the national committee of the American Association of State Colleges and Universities that has taken on this task. We are developing a number of reports in this field, and will hold a national conference in Atlanta in April.

Universities have equipment and facilities to offer as well, and the industry know-how, of course, has a reciprocal effect on our curriculum and our facilities.

The UW system is anxious to serve the needs of small business. I've shown here the cover of the second edition of a directory of resources that are available in the UW system. The first edition of this was published in 1982 and the third edition will be coming out in April. Economic development is one of the priorities that has been stated by our new president of the UW system, Kenneth Shaw, in a recent speech that he gave.

Although somewhat cautiously, industry and education have acknowledged their dependency on each other. Our economy continues to undergo a structural change, and more voices, I'm sure, will advocate closer cooperation. Renewing the entrepreneurial spirit, helping new businesses develop and assisting in the transfer of technology are factors critical to the improvement of the economic climate of the United States.

Stout expects to continue to play a major role in attracting, influencing and assisting in the development and expansion of industry in this area and in the State. We are excited about Stout's future, and we thank you for coming here to hear our story.

[The prepared statement of Mr. Swanson follows:]

STATEMENT OF CHANCELLOR ROBERT S. SWANSON, UNIVERSITY OF WISCONSIN-STOUT, MENOMONIE, WI, BEFORE THE U.S. SENATE SMALL BUSINESS COMMITTEE, SUBCOMMITTEE ON ENTREPRENEURSHIP

FEBRUARY 11, 1986

On behalf of the university staff and students, I want to welcome Senator Kasten, the subcommittee and our distinguished guests who are testifying this afternoon. Stout is honored that this campus was selected for today's hearing. Because of the work that we are doing with new and established businesses, the selection of Stout as the hearing site is appropriate.

Stout's history and tradition are closely linked to the growth of industries in this country. In founding this school almost 100 years ago, Senator James Huff Stout was strongly influenced by the Industrial Revolution that was sweeping our country at the time. Early course content was drawn from and influenced by the crafts and industries that were emerging in the late 1800s.

At Stout, we are convinced that future economic development is dependent upon our ability to build partnerships between the university and industry. Such partnerships are an obvious trend. Stout has been actively pursuing that course for several decades but with added vigor in recent years.

Within the UW System, Stout has been designated a special mission university. Stout has a statewide mission in programs relating to industry, technology, home economics, applied art, teacher education and the helping professions. Several of Stout's programs in its special fields are among the largest in the world. Programs in hotel and restaurant management, industrial and applied technology, food service administration, applied mathematics, industrial and graphic design, to name but a few, reflect the needs of Wisconsin in service and manufacturing industries.

BEST COPY AVAILABLE

Stout serves industry primarily through well-established centers which provide needed services. Centers include the Center for Innovation and Development; Center for Vocational, Technical and Adult Education; Small Business Development Center (technical testing mission); Employer Assistance Center; Safety and Loss Control Center; Industrial Design Center; Projects with Industry; Market Research Center; and the Vocational Development Center. Stout maintains co-op and internships with industry and has a thriving "incubator" program.

As educators, it is our task to stay in step with what is happening in industry. We look to industry for course content, technological help, training stations and financial resources.

A recent article sent to me by Jim Bartl of Eau Claire's National Presto Industry and a member of Stout's Board of Business and Industrial Advisers, noted that American industry needs access to the technologies being developed around the world. University research can be the link that connects industry with that research. Permit me to quote from that article by Stephen E. Upton, a senior vice president at Whirlpool. "University research can help us get back to, and on with, the basics. With university objectivity, we can look behind and beyond the products we make--to review their services--for fresh interpretation of form and function. We can look behind and beyond products and production--the hard sciences--into marketing and consumption--the soft and social sciences. Indeed, we will need to, as we move appliances into developing countries where consumers may not yet recognize the values of cleanliness, comfort and nutrition."

BEST COPY AVAILABLE

Mr. Upton went on to say that his industry can especially benefit from help in areas that include computer--integrated manufacturing systems, robotics, microelectronics and materials. All of the areas outlined by the writer are being actively pursued by Stout. We see our role as becoming involved, not only to help solve some of the short-range problems of industry but, more important, to sharpen our fundamental knowledge in these areas.

I have recently been appointed to chair a national task force on economic development sponsored by the American Association of State Colleges and Universities. The task force, as its first assignment, will compile and publish a catalog of economic development programs now operating on AASCU campuses. The publication will be followed by a conference that will discuss current programs and broad policy issues in economic development.

Policy and procedure issues are among our main concerns. Education must be alert to such things as conflicts of interest and legal entanglements, while industry is concerned with confidentiality, proprietary rights and licensing. These problems can be resolved if government, industry and education work to create the proper atmosphere.

At Stout, we are working to resolve differences and difficulties through our Center for Innovation and Development. The Center's purpose is to promote interaction among faculty, students and industry. While providing a valuable service, the center hopes to enrich the students' education through involvement in real problems faced by business and industry. The center is active in areas that include manufacturing automation, programmable automation, prototype development, process control, staff development and operations management.

BEST COPY AVAILABLE

The primary goal of Stout is education and training. We feel we are doing a good job by graduating students who are finding employment in their fields. Last year, 94 percent of Stout graduates were placed. We expect that figure to be just as high this year. More than 200 national companies will visit Stout this year.

Most industry-education partnerships today probably are uneasy ones. Working closely together is a new role for both parties. Nevertheless, development of such partnerships should not be delayed. If we can manage to close the gap between industry and education, we can create better public understanding of our respective roles.

At Stout and throughout the UW System, there are faculty and staff who have the knowledge and skills needed by industry. They can be of value. It is a matter of developing working relationships that can take advantage of what they have to offer. Universities have facilities and equipment to offer as well. On the other hand, industry know-how can enhance the college curriculum and improve professional programs. Industry can help set directions for education.

Although somewhat cautiously, industry and education have acknowledged a dependency on each other. As our economy continues to undergo a structural change, more voices will advocate closer cooperation.

World competition and changing technologies require all of us to be more creative, curious, imaginative, intelligent and dedicated. Everyone must be prepared to play a larger role in economic development. Products and production methods that once were the sole domain of the United States are being duplicated around the world. New technology, especially in the electronics area, is leading to new products and revealing new methods of production. Future economic successes will be tied to a skilled, creative work force. Accelerated change will require new training and retraining programs.

BEST COPY AVAILABLE

Renewing the entrepreneurial spirit, helping new businesses develop and assisting in the transfer of technology are factors critical to improvement of current economic problems in the United States. Stout is eager to play an active role in the process.

Stout and other universities have much to offer. Stout began in 1893 as an experiment in education and in response to the needs of a changed society created by the industrial revolution. For more than 90 years, it has influenced thought and action in its special fields. The Stout curriculum has more to offer economic development today than ever before.

The university expects to play a major role in attracting, influencing and assisting in the development and expansion of industry in this area and elsewhere in the state. We are excited about the future.

Thank you.

EST COPY AVAILABLE

Senator KASTEN. Well, we thank you for what you're doing very, very much. Thank you for your testimony. It's now my pleasure to introduce Mr. Michael Healy. Last year Mr. Healy purchased the old Walter Brewing Co. in Eau Claire. Today, under the banner of Hibernia Brewing Ltd., Mr. Healy serves as its president. Mr. Healy will tell us about his background, his purchase, as well as how the Hibernia is developing.

I should say parenthetically that we thought of having pizza and beer and we could talk these two gentlemen into bringing samples. But I'm not sure we're going to have samples of Hibernia and Tombstone Pizza today. But we're very, very pleased that both of them are here. And, Mike, why don't you go ahead with your statement?

STATEMENT OF MICHAEL J. HEALY, PRESIDENT, HIBERNIA BREWING LIMITED, EAU CLAIRE, WI

Mr. HEALY. Thank you, Senator. Good afternoon, ladies and gentlemen. My name is Mike Healy, I'm president of the Hibernia Brewing, Ltd, a 100,000 barrel brewery located in Eau Claire, WI. Now, 100,000 barrels may sound like a lot of beer, but if I told you that Anheuser Busch last year sold 70 million barrels of beer, I think that in the context of the American brewing industry I definitely do qualify as a small business.

I purchased the brewery about a year ago just before it was ready to close. I've had the entrepreneurial urge since my college days when, with various sales jobs, I worked my way through school. After school and the service I went to work in the printing division of the United States Bank Note, and in 18 years gradually rose to the position of vice president. And although it was an extremely comfortable life style and I had decisionmaking authority, I was still working for someone else.

The itch never really went away. And when the domestic brewing industry started to grow, I began to think about getting off on my own.

A major portion of my time as the vice president of new product development for the United States Bank Note Co., I had the opportunity to travel extensively throughout the entire continental United States. What I observed was the start of very small regional or specialty brewers producing beer in very small quantities, usually less than 1,500 barrels. But they were of a beer style generally available only throughout Europe, and more specifically in Germany itself.

These small regional brewers had rediscovered the wheel, so to speak. They went back to the oldest pure food law in the world, the German Reinheitsgebott of the year 1516, which stated that beer could only be made with water, hops, yeast and malt. These new breweries were selling all of the beer they could produce. And I felt that if a usually undercapitalized makeshift brewery were being successful in small quantities, why couldn't I purchase a truly commercial brewery, produce the same quality products to the same standards, and also be successful?

My first attempt to get the project started was in my then hometown of Chicago, IL. I was unsuccessful in attempting to pursue

61-535 0 - 86 - 2

BEST COPY AVAILABLE

this project in Chicago because of the extreme capital intensification. And were I successful in raising the amount of capital necessary for the land, the building, the equipment, et cetera, I would still not have at my disposal a trained brewmaster nor a work force.

After 2 extremely frustrating years, I had almost resigned myself to the fact that I would be unable to pursue my dream in Chicago, nor anywhere else.

A 100,000 barrel facility, owned by the same family for 95 years, who had simply been unfortunate enough to be producing the same product as the major brewers in this country, and of course being totally ill-equipped to combat the economic muscle of the giants or the multimillion dollar budgets, was simply unable to survive. This was the Walter Brewing Co.

As an illustration of what Walter Brewing faced, let's use a comparison of the country of Germany—one-half the size of our State of Texas—that has 1,200 breweries. Our own country, of 220 million people, we have 50 breweries, 6 of which produce and sell 95 percent of the beer consumed.

The Walter family was simply unable to continue operations. After almost 6 months of negotiating, I was successful in purchasing the Walter Brewing Co., and immediately embarked upon the production of a flagship brand and four specialty beers, allowing at least a small portion of the American beer drinking public the array of tastes and flavors commonly available to beer drinkers throughout the rest of the world.

To date, in less than 10 months of operations, production has gone from an estimated 12,000 barrels per year to 36,000 barrels. The growth has been accomplished because of the decisions I made as to where Hibernia Brewing, Ltd. fit in the overall scheme of the brewing industry.

I decided that the key to success for my facility was the pursuit of the niche marketing concept. My beers are aimed directly at the imported beer drinker, the only segment of the beer market in this country to have grown last year, at 18 percent, and the only segment of the beer market to have shown at least a 15-percent growth over the last 10 years. We can manufacture in this country the finest beers in terms of not only quality, but taste, color, et cetera. We do not have to purchase those products overseas.

I suppose that at this point I should comment that the real springboard to making the decision to go out on my own was the passing of my 40th birthday, when I had observed my peers suddenly becoming interested in exotic sports cars and conversations with their sorority sisters of their own teenage college aged daughters. I chose instead to purchase the brewery.

What I would like to talk about now is the critical outside help I received to make this purchase and to help this 95-year-old tradition survive. I committed all of my assets to the purchase and revitalization of the Walter Brewing Co. But without the assistance of the Small Business Administration, my dream would not have come true. Even though all of my financing was fully collateralized, the specialty brewing industry is such a new one that no bank would have worked with me without the guarantees and pledges of the Small Business Association.

BEST COPY AVAILABLE

Today, Hibernia Brewing is a revitalized and growing company. We provide a paycheck for 50 families and pay hundreds of thousands of dollars in taxes. All of this would not have been possible without the assistance of our Government in the form of the Small Business Administration, and the advice and assistance at the State level from members of the faculty at the University of Wisconsin, Eau Claire.

The Small Business Administration has helped my company survive. And as a result, it has aided our community. I strongly feel that the Small Business Administration should be allowed to continue to provide assistance to other new small businesses.

I have recently read studies that indicate that most of the new jobs to be generated in this country in the future will be coming from small businesses rather than large industries. For example, the Fortune 500 largest corporations in the United States have created no new net jobs in the last 15 years. That being the case, our Government should, and must continue to, provide support for the continued creation of new small businesses, and through that, new employment.

I thank you very much for your attention and allowing me to express my opinion and the opinion of other small businessmen. Thank you.

[The prepared statement of Mr. Healy follows:]

BEST COPY AVAILABLE

Brewers of Walter's & Hibernia Since 1889.

February 5, 1986

Statement to the United States Senate Small Business Committee Subcommittee on Entrepreneurship given by Michael J. Healy, President of Hibernia Brewing, Limited, Eau Claire Wisconsin, on February 11, 1986.

Good afternoon ladies and gentlemen my name is Michael Healy, I am President of Hibernia Brewing, Limited, a 100 thousand barrel brewery in Eau Claire, Wisconsin. Now, 100 thousand barrels may sound like a lot of beer, but some of my competitors sell 20 to 60 million barrels, so in the context of the American Brewing industry, Hibernia definitely qualifies as a small business. I purchased this Brewery about a year ago just before it was about to close.

I have had the entrepreneurial urge since my college days when I worked at a variety of sales jobs in order to put myself through college. After school and the service I went to work in the printing business for eighteen (18) years, gradually rising to the position of Vice President of a major printing corporation. I led a very comfortable life style and was in a position of authority, but I was also working for someone else. The itch to be my own boss never <u>really</u> went away and when the domestic specialty brewing industry started to grow I began to think about going off on my own.

A major portion of my time as the Vice President New Product Development for the United States Bank Note Company I had the opportunity to travel extensively throughout the entire Continental United States. What I had observed was the start of very small regional or specialty brewers producing a beer in very small quantities usually less than fifteen (15) hundred barrels per year, of beer styles available only throughout Europe and more specifically in Germany itself. These small regional brewers had rediscovered the wheel - so to speak and went back to the oldest pure food law in the world, the German "Reinheitsgebott" of the year 1516, which stated that

Hibernia Brewing, Ltd.
318 Elm Street, P.O. Box 1167
Eau Claire, WI 54702-1167 (715) 836-2337

BEST COPY AVAILABLE

Brewers of Walter's & Hibernia Since 1889.

beer could only be made with water, hops, yeast and malt. These new breweries were selling all their production and I felt that, if a usually undercapitalized, make shift breweries were being successful in small quantities why couldn't I purchase a truly commerical brewery, produce the same quality products to the same standards and also be successful.

My first attempt to get the project started was my in then hometown of Chicago, Illinois. I was unsuccessful in attempting to pursue this project in Chicago because of the extreme capital intensification, and were I successful in raising the amount of capital necessary for the land, building, equipment, etc. I would still not have at my disposal a trained brewmaster nor a work force. After two (2) extremely frustrating years I had almost resigned myself to the fact that I would be unable to pursue my dream in Chicago nor anywhere else. Just about one (1) year ago the Walter Brewery become available. A 100 thousand barrel facility owned by the same family for ninety-five (95) years who had simply been unfortunate enough to be producing the same style product as the major brewers in this country and of course being totally illequiped to combat the economic muscle of the giants or the multi-million dollar budgets was simply unable to survive. As an illustration of what the Walter Brewing Company faced, let it survised to say that a apt comparison of Germany, a country half the size of our State of Texas, there are twelve (12) hundred breweries, in our own country of two hundred twenty (220) million people there are fifty (50) breweries and six (6) of those breweries produce and sell ninety-five (95) percent of the beer consumed.

The Walter family was simply unable to continue operation. After almost six (6) months of negotiations I was successful in purchasing the Walter Brewing Company and immediately embarked upon the production of a flagship brand and four (4) seasonal beers allowing at least a small portion of the American beer drinking public the array of tastes and flavors commonly offered to beer drinkers throughout the rest of the world. To

Hibernia Brewing, Ltd.
318 Elm Street, P.O. Box 1167
Eau Claire, WI 54702-1167 (715) 836-2337

BEST COPY AVAILABLE

Brewers of Walter's & Hibernia Since 1889.

To date, in less than ten (10) months of operations production has gone from an estimated twelve (12) thousand barrels to a thirty-six (36) thousand barrels estimated for 1986, this growth has been accomplished because of decisions I had made as to where the Hibernia Brewing, Limited fit in the overall scheme of the brewing industry. I decided that the key to success for my facility was the pursuit of the "niche" marketing concept. My beers are aimed directly at the imported beer drinker, the only segment of the beer market in this country to do any significant growth over the last year at eighteen (18) percent, with an annual growth over the last decade in excess of fifteen (15) percent. We can manufacture the finest beers in the world in terms of styles and tastes. I suppose at this point I should say that the spring board to finally making the decision to go out on my own was the passing of my fortieth birthday when I had observed peers suddenly becoming totally fascinated with the purchase of excotic sports cars, conversation with sorority sisters of their college age daughters, but I choose instead to purchase a Brewery.

What I would like to talk about now is the critical outside help that I received to make this purchase and to keep a 95 year old business in operation.

Ladies and gentlemen, I committed all of my assets to the purchase and revitalization of the Walter Brewing Company. But without the assistance of the Small Business Administration my dream would not have come true. Even though all of my financing was fully collateralized, the specialty brewing industry is such a new one that no bank would have worked with me without the guarantees and pledges of the Small Business Administration.

Today Hibernia Brewing, limited is a revitalized and growing Company. We provide a paycheck for fifty (50) families and pay hundreds of thousands of dollars in taxes.

Hibernia Brewing, Ltd.
318 Elm Street, P.O. Box 1167
Eau Claire, WI 54702-1167 (715) 836-2337

BEST COPY AVAILABLE

Brewers of Walter's & Hibernia Since 1889.

All of this would not have been possible without the assistance of our government in the form of the Small Business Administration and the advise and assistance on the state level from members of the faculty at the University of Wisconsin, Eau Claire. The Small Business Administration has helped our Company survive and as a result has aided our community. I **strongly** feel that the Small Business Administration should be allowed to continue to provide assistance to other new small businesses.

I have recently read studies that indiciate that most of the new jobs to be generated in this country in the future will be coming from small businesses rather than large industries. For example - the Fortune "500" largest corporations in the United States have created no new net jobs in the last fifteen (15) years. That being the case, our government should and must continue to provide support for the continued creation of new small businesses and through that new employment.

I thank you ladies and gentlemen for allowing me this opportunity to present my views and the views of other small businessmen such as myself.

Hibernia Brewing, Ltd.
318 Elm Street, P.O. Box 1167
Eau Claire, WI 54702-1167 (715) 836-2337

BEST COPY AVAILABLE

Senator KASTEN. We thank you for appearing here. Our next speaker is Mr. Ron Simek from Medford, WI. Mr. Simek, along with his brother, developed Tombstone Pizza. Today, as president of the Tombstone Pizza Corp., Mr. Simek will tell us his story.

Mr. Simek.

STATEMENT OF RON SIMEK, PRESIDENT, TOMBSTONE PIZZA CORP., MEDFORD, WI

Mr. SIMEK. Thank you, Senator. Good afternoon to you, ladies and gentlemen.

My wife and I bought a 3-year-old country tavern in 1960. Because it was located across the road from a cemetery we decided to call it the Tombstone Tap. We were only licensed to sell beer, so most of our customers were from the 18-to-21-year-old age group.

We paid $2,000 down on the tavern, for which the owners were asking $18,000. The bank wouldn't lend us any money at that time.

In 1960 my brother Pep and his wife joined us. There just wasn't enough income to support two families. We had to either find ourselves part-time jobs or find a way to increase the income from the tavern. We decided we'd try to sell hot beef and barbecue along with the beer. After about 8 months we had to admit that wasn't working. We thought maybe we should try roast chicken—or pizza.

We tried the frozen pizzas that we could buy at the time, but we just weren't satisfied. Pep thought he could make a better pizza.

Then my brother broke his leg, doing the twist in front of the jukebox. He wasn't able to work for about 3 months. During that time he decided to experiment with pizza recipes.

He called a friend who had operated a pizza place in Chicago for 14 years and asked for advice. He was referred to the friend's aunt. He talked to his friend's aunt, who told him which spices not to use because they cause heartburn.

For about 2 months Pep tries various pizza recipes. We gave the pizza away to our customers, who let us know when they thought Pep had made a really good pizza.

At that time, about 85 percent of Mefford's graduating seniors left the area within 30 days of graduation because there were no jobs available. The typical wages in Medford were $1.25 or $1.35 an hour, while in Green Bay, Milwaukee, Minneapolis, or Chicago jobs could be found that paid $2.50 or $3.50 an hour. When these kids came back for vacation or on weekends, they would stop at the Tap and try our pizza. We'd ask them how they like it. They'd make suggestions: a little more sauce, more onion, or more of something else.

And the big day came July 4, 1962, when we actually started to sell pizzas. We started selling pizza on the Fourth because we knew it would be a busy weekend at the tavern. We wondered what to charge and whether people would like the pizza enough to buy it—you know, when you give things away people think it's great, but it's another story when you expect them to buy.

To our surprise, by 4 p.m. we were out of pizza.

We made some more sausage and bought some more crust and cheese and we made more pizzas on Saturday and Sunday.

BEST COPY AVAILABLE

We operated this way for about 2 years. Other tavern owners, friends of ours, would stop in and ask us if we would make half a dozen pizzas or so for them, and they in turn would sell the pizzas at their taverns. That's how we got into the frozen pizza business.

The cheese and sausage pizza that we make today is made from the same recipe we developed at the Tombstone Tap.

One of the reasons our product has been so successful is that we try to keep the product as natural as possible. We don't use extenders or fillers. To illustrate how we are different from other pizza companies in that respect, let's look at what happens when we cook our sausage. Let's say we start with 1,000 pounds of meat—pork and beef. As we cook that meat, we drain off the fat, which amounts to about 250 pounds. We sell the drained-off fat to Green Bay Packaging for about 8¢ a pound. When our competitors start with 1,000 pounds of meat—some of them don't cook it at all—they don't drain off the grease. Instead, they add a flour protein or soy extender to soak up the grease. They end up with 1,250 pounds of sausage out of the same amount of meat that we started with, while we end up with 750 pounds.

That's one of the reasons we're so successful. We firmly believe that we have the best frozen pizza in America.

But let's go back to those early years. We were delivering pizzas with our cars. We used to buy dry ice at Marshfield, which is 35 miles from Medford, because we couldn't buy it in Medford. And then one summer our customer started telling us that our pizzas were arriving half-thawed and that we'd better buy ourself a freezer truck or they'd probably start buying from Roma or Tower House or D&E at that time. So our big decision was to buy a truck.

We went out to borrow $4,000 or $4,500 for a truck, and the bankers all laughed at us and said frozen pizza was a passing fad, that Tombstone Pizza—especially with the name—would never go anyplace. We finally talked to the banker in Stetsonville. The reason he agreed to lend us the money was that he could see our total monthly receipts and deposits at the bank getting larger and larger because we were selling more and more pizzas on our sales route. Finally he decided to lend us some money. We had about $25,000 equity, or I should say we had $25,000 worth of house and the tavern, probably about $18,000 in debts against them, maybe $25,000 worth of assets.

So he considered our personal property. My son Jeff is in the audience. We even listed Jeff's high chair and everything else we had in the house in case we went "belly up," and he seemed to have everything. So by the time we got our loans through and got our truck completely built, he decided that he could lend us some money using the real estate as collateral. He'd leave the personal property, the TV and the radio and everything else, alone.

We ordered our first freezer box from Johnson Truck Body up at Rice Lake. It took 4 months where today it takes about 6 weeks. Charley was a guy I knew pretty well and I asked him why it took him 4 months to make our first box. He said he was trying to save us some money. "But every 2 weeks you're in here asking about the box." He said, "I thought if I stalled you'd probably quit coming back around and you wouldn't have to lose the money on

BEST COPY AVAILABLE

the box." Today we order 25 or 20 at a time, so that surely has changed.

I think today you need a lot of dedication to become a successful businessman. We started out with a $100 pizza business. When we started in 1962 we sold a little pickup for $100, and we bought three porcelain roosters, five pounds of cheese, two dozen boxes of crusts, and a case of number 10 cans of tomato paste and tomato sauce. All we knew was that we wanted to make a better life for our families and for ourselves.

My biggest goal at that time was to buy myself a four-wheel drive pickup. I guess today we've got six of them. But anyway, that was what I wanted to do. I also put my kids through college. When we started, we had no help from anyone. We had no one to ask for help. My dad was born in the old country.

If you're going to start a business, you have to have dedication. We had dedication, and we have quality and service. I guess those are two factors responsible for our success. Every person that traveled anywhere from Medford was an ambassador for Tombstone Pizza Corp., and we had that many salesmen. And as we or any of our salesmen from Texas, or Missouri, go today to California or some other place outside our market area, we're asked when we are going to sell our pizzas in these places. We just started selling in Texas a year ago.

We have a good product and we do a lot of advertising, but word-of-mouth is still the best advertising you can have. People know how Tombstone Pizza started with no financial backing, and how we had to count on people who like to help people that have started without anything.

And I have to comment on my brother. He and I worked very hard in the last 20 years to get where we're at today. Today our company is among the four largest pizza companies in the United States. We believe we have the highest quality product. We believe we give the best service. And I have to keep saying that.

At one time we sought a loan from the SBA. Our initial dealings were with a man in Medford who was being paid $20,000 a year by the Medford Development Foundation to assist people in obtaining financing. He was supposed to have completed the necessary paperwork on our behalf.

But when my brother and I went to Wausau to meet with a representative of the SBA, none of the paperwork had been done. We were embarrassed, and so was the SBA representative, who couldn't proceed without the information we thought had been provided by the man from Medford.

When we returned to Medford, we talked to members of the Medford Development Foundation about our wasted trip. They fired the man responsible for our embarrassment and the delay of our loan.

We started over with the Medford Development Foundation and obtained a loan to build our first plant. I believe we borrowed $5,000. Before that we had a four room flat behind the tavern that we'd had to make into a pizza room in 1966.

The boys' bedroom we converted to a freezer, the girls' bedroom we converted to a cooler, the kitchen, of course, was a kitchen, and the living room was the assembly area. My wife came home from

BEST COPY AVAILABLE

bowling one night and found we had moved two 20 foot freezers into the living room and we had moved out the sofa. She almost had hysterics. And I said, "We can't make any money on the sofa, we need more freezers." [Laughter.]

So, we had a lot of fun to get where we got today, a lot of memories. We really should have kept a diary because so many different incidents happened along the way. Once we tried to sell pizzas to an old man and his wife who had a little tavern. He said he'd take a sausage pizza and one with mushrooms. As he was walking back into the kitchen, he turned around and asked, "That's kind of a pie, isn't it?" He had no idea what he was buying. So my brother and I must have been pretty good salesmen.

I guess our biggest problem as we grew up in the pizza business was to hire good route salesmen. We had a new product and we were a new business with no track record, and a lot of people didn't want to quit their jobs to come and work for Tombstone Pizza Corp. So our first route salesmen were construction workers that we got to know at the tavern. In the fall when they weren't employed, we sent them on a route, and by spring they decided they should stay with Tombstone Pizza rather than go back on construction.

It also worked well to hire the kids out of the tavern because we could see how they conducted themselves after several beers. If they could still be gentlemen, they'd probably be good salesmen.

After we had acquired a sales force of about 20 men, we found that it was hard for us to get any management people to come to Medford because there's nothing to draw people to Medford except, at that time, Weather Shield. Maybe a manager's wife needed a job, and there were no jobs available for the wives, or vice versa. So we had a hard time getting people to move to Medford. We have a hard time recruiting to this day because Medford just doesn't have the cultural, recreational, educational, and economic opportunities found in cities such as Eau Claire or Minneapolis.

We just had our annual sales meeting in Minneapolis. We had 732 people there. We bring in 500 route salesmen and all the district managers and their wives for an all-expense-paid weekend. We believe the wives deserve special recognition; a salesman is gone 5 days a week, he comes home at 10 at night, maybe he's been drinking, and he doesn't see the kids, misses their graduations and probably isn't home for their birthday parties because he's on the road. A lot of these men do overnights.

We think it's a very, very important you have a salesman to make sure that the wife and the family are appreciated by the employer, and we appreciate our people. This year we honored five salesmen of the year five supervisors of the year and five district managers of the year. We give them, if they're "No. 1" in their region a week's vacation for two in Hawaii. For any person who has previously won a Hawaiian trip, we're offering a Caribbean cruise. This is the first year we've offered the cruise. It's all expense paid for them and their wives. There are six winners this year who are taking the cruise.

They win this award not just because of sales volume, because sales volume alone does not give you the measure of what the man is really doing; we base the decision on both sales volume and serv-

BEST COPY AVAILABLE

ice. The "service" means completing daily reports on time, gaining new accounts, and meeting all goals.

We had one district that in 2 years had never missed a daily report, which meant that there are 12 route salesmen in that area who have never been a day late on their daily reports. That's quite an achievement.

So, I'm happy to be here. I don't get the chance to sit down and talk like this very often, as you can see. I'm not a professional speaker, but I know that it's possible to succeed if you're dedicated, work hard, have a lot of perseverance, and give up a lot—in fact, I don't believe I was at Jeff's graduation or my other son, Tony's, graduation. I was on a pizza route.

It's been a lot of fun; the rewards have been great. We will sell, or we'll produce, in excess of 45 million pizzas this year, so we're doing pretty well.

Thank you very kindly.

Senator KASTEN. Thank you very much. Let's begin with some questions for Mr. Swanson. You mentioned that your placement rate at Stout as being about the 94 percent level. This truly says great things, I think, about the perception in the marketplace, not only in Wisconsin but throughout the country, about Stout's education programs.

How many students are enrolled at Stout? Of that, how many are in the business program?

Mr. SWANSON. This fall we had 7,750 total graduate and undergraduate students. I would say of these that probably 60 percent of them are in programs preparing to go to work in business and industry. So by far the majority of our students are in those kinds of programs.

Senator KASTEN. What kind of business background does your faculty have, and how many of them have actually had the kind of hands-on experience that we're looking at here with Mr. Healy and Mr. Simek? Are there people that are presently teaching or working at the university and also have positions in corporations or small businesses around the town?

What kind of experience do they have, and what kind of coordination do you have with what's going on with the incubator of businesses and also others?

Mr. SWANSON. First of all, Mr. Simek has no peer anywhere on our faculty or elsewhere, so we can set him aside for the moment. Most of our faculty in the technical and the business areas have had some kind of experience in all sorts of areas. Our largest single program is industrial technology which involves things like graphic arts, electronics, manufacturing, and a good share of those people come from experience in those areas.

The second largest program is hotel and restaurant management, and most of those people have also worked in that field. So our faculty has very broad experience in that kind of thing.

Senator KASTEN. Let me switch over to Mike. In a lengthy article on new business in breweries in America, the January issue of Business Week, your brewery was picked out, ranked as one of the breweries to watch in 1986. I think we all want to congratulate you for that.

BEST COPY AVAILABLE

You mentioned that you had given up hope while living in Chicago, that your dream of owning and operating a brewery would ever come true. How was it that you happened to learn about the Walter Brewing Co. and made your first forays into Wisconsin?

Mr. HEALY. I had met a gentleman by the name of Alan Dictie, who had been in the specialty brewing industry for about 10 years as editor of the New Brewer magazine. There are not very many small family owned breweries left in this country. And when one is having financial difficulties, the community is so small that everyone finds out about it. So I found out about the difficulties of the Walter Brewing Co. through Alan.

Senator KASTEN. You talked about the difficulties that enormous investments would have given you had you been able to start up in Chicago, or maybe it would have been impossible. Do you see advantages to having begun in Eau Claire? And if so, do you think that smaller communities are more ideal to organize a new business?

We also might ask Ron to respond to that question also. Medford clearly isn't a huge community either. Do you think that a smaller community, like Eau Claire or Menomonie or certainly Chippewa Falls—we've seen a lot of smaller . businesses developing there is more conducive to small business startups? Could you describe the differences between a large community and a small community and describe the advantages and disadvantages that you would look at as a new business?

Mr. HEALY. Personally speaking, the success attributed to Hibernia right now is directly related to the support I have received in the Eau Claire community. It was of critical importance that I receive local support for these first formative months, and I have received that in Eau Claire.

Second, the size of the community in terms of the work force that I had inherited, I don't believe I had—there are any peers for them anywhere. The work ethic in Eau Claire, WI, and I think for the whole State of Wisconsin, is alive and very well.

Senator KASTEN. Ron, do you want to just comment on a small business in a small town?

Mr. SIMEK. Medford gave us a lot of support. A man named Bootzin, who has a grocery store in Stetsonville, came home from a trip about 10 or 12 years ago and said he had seen Tombstone Pizza signs in the Black Hills of South Dakota. "So all of a sudden we didn't seem that far away from home! He said; "In a small town you have the kind of people that are pulling for you all along the line and it makes it a lot easier." There's pride involved in the idea of "hometown, homegrown, made the way you'd make your very own," as our commercial says. I think it's easier.

Senator KASTEN. I'm going to continue the questions. We're receiving questions from the audience, and basically we're going to try to now work through about 15 minutes of questions. I'm going to intersperse my questions with questions that we received on the cards from the audience. I'm going to combine one of the questions that I had with a question from the audience.

What are your goals and plans? And I'm going to ask the same thing to you, Ron. Mike, what are your goals and plans for the next 3 to 5 years? How large do you think Hibernia will become?

COPY AVAILABLE

And the question from the audience is, Is your stock now being sold? Is any of your stock now being sold on a listed exchange?

Mr. HEALY. The answer to the second question is no. I own it all. To answer the first question, being a 100,000 barrel facility, over the next 5 years I have no interest in building a second brewery. Perhaps purchasing a second brewery maybe, but there is an aligned portion of this business that is starting to take hold. These are called brew pubs. And a brew pub is nothing more than a miniature brewery on site that also serves food. They are becoming extremely important and popular in Europe.

Mr. SIMEK. A pizza pub.

Senator KASTEN. I was going to say, it looks like we could do a little work here with the two of you.

Mr. HEALY. They're becoming very, very popular.

Mr. SIMEK. Especially in England.

Senator KASTEN. Ron, the same question to you. First of all, is your stock publicly traded or listed on any exchange, and second——

Mr. SIMEK. We are presently a family owned corporation, and I don't know if we'll ever go public. I'm only 56. If I sold tomorrow I wouldn't know what to do. We have all of our friends involved. Our goal is to be the No. 1 pizza in volume. That may take 5 years, 10 years. We are No. 1 in quality today.

Incidentally, we are the only major pizza company that uses nothing but 100 percent natural cheese on all of its pizzas; which is a big benefit to us when we go out to advertise. There are no fillers and extenders in our products. So we've got some goals that are not for public knowledge for the simple reason that we're a closely owned corporation.

Senator KASTEN. So that would be—5 million pizzas now is what you've got, so now you're going——

Mr. SIMEK. So we'd be doubled in 10 years possibly. It's kind of interesting to note that Totino's bought Jeno's Totino, which is Pillsbury, bought Fox Deluxe about 10 years ago. The Federal Trade Commission put an injunction against them and told them they could not merge. Well, today—I don't know how it happened or what we can do about it—Pillsbury bought Jeno's. They are now the largest company. In some markets they'll have 85 percent of market share. They'll have enough clout that they can raise the price of their product to consumers, which are you folks, and give a lot of competition to the other companies such as Tombstone Pizza and Ellios and Tony's. We don't really know what's going to happen.

I can't believe that the Federal Trade Commission let two large companies—the two largest—merge without even a question. And it was done so easily it wasn't even widely publicized. We don't believe that it's a good thing for the consumer, because you can be paying 50 cents more for each of their pizzas, without a corrsponding increase in the quality of their product. So, I don't know where we're going.

Senator KASTEN. The next question from the audience is—Dick, I'll address it to you—small business loans. And I think let's talk about both direct and guaranteed. Maybe it's easier to talk about a small business guaranteed loan.

BEST COPY AVAILABLE

Very quickly, part one, where do I go? Part two, who do I talk to? Part three, how much redtape? Part four, who is eligible? Can you just give us a brief run down?

Mr. DURKIN. Quickly, who do you go to? Our retail outlets or the banks of Wisconsin. There are a lot of community banks. Go in and sit down with your banker, discuss your idea, what you're trying to do. He'll ask you to prepare some numbers. And if he believes that the numbers are doable and workable, then you can ask him to consider taking that to an SBA loan office. An SBA loan office can either be in Milwaukee or in Madison.

How long will it take? If it's a good package, you can get service within 2 to 3 weeks. We've got some certified lenders and preferred lenders in Wisconsin that could give you an answer in 1 day or 3 days. Generally decent packages, meaning ones that appear to be sound, can get processed in 2 to 3 weeks.

Senator KASTEN. I might comment that as a member of the Small Business Committee and as the chairman of the special problems facing the Small Business Entrepreneurship Subcommittee, this is something that we have worked on; to try to reduce the redtape and to try to get a quicker turn around. We don't say get a yes, but get a yes or a no so that the process is such that takes place—and the Small Business Administration I think ought to receive a great deal of thanks from a number of people in appreciation. You're not giving loans to people you wouldn't give loans to, but you're at least saying yes or no in a more timely fashion, and I think that's very important.

Mr. DURKIN. And where one knows what they have to do to remedy the problems if they can be identified.

Senator KASTEN. One of the questions here—and I know that there are a number of women that are in leadership positions as well as management positions as well as working positions at Tombstone Pizza because I've visited there a couple of times—the question is, what are the trends with respect to women in business?

What are the percentage of women in small businesses? What percentage of women in management in these kinds of companies? And I might say to the person who sent this question, we're specializing in this area, women in small business, at the hearing at Mount Mary College, which is a woman's college in Milwaukee. I wish that you could be there. Possibly we can make arrangements to send you the transcript of that hearing, or you might also learn about that hearing in the press.

But what kind of trends do you see, Dick, in small business for women with the work that you've done? And then I'll ask each of the remaining panelists to just comment on that; women in small business, women in business, women entrepreneurs.

Mr. DURKIN. The fastest growing segment of the business community in America today is women business owners. They now have captured 25 percent of all businesses in America. Last year we took the first women business owners trade mission to Europe. We're going to Japan this spring and to Europe again this fall—all outstanding successes.

We have seen outstanding examples of women in business. No longer do they have to take a back seat to men. They have come

into their own. And that's only occurred probably in the last 5 years.

Senator KASTEN. Ron, any comments on women in business?

Mr. SIMEK. Yes, Bob; I think there's been sex discrimination for the last 150 years, I think, that's been lifted considerably over the last 5 years. In our plant we started mainly with women who were the second-income earners of the family. Today we have had men on the line making pizzas with the women, and we've got some women who are managers. Our quality resource manager is a woman. Our process and product development technician is a woman. Our executive assistant was promoted to that position. She's been doing a fine job for the 9 years that she's been with us. Our human resources manager and manager of office and administrative services are also women. In our Tombstone Pizza Corp. we've had shuttle drivers that are women. We did not discriminate to start with. But I think there is still some discrimination in this country today. And I think if women take a role of leadership, there'll be a lot of women owners in businesses in the future—80 percent of the wealth today in the United States is owned by women. So I think they've got a bright future.

Senator KASTEN. Mike Healy, I don't know if there's any special insight from the brewing industry with women entrepreneurs, but if you have a—we'd be interested in your comments and then also Chancellor Swanson.

Mr. HEALY. The first full-time brewery rep that I hired is a female who covers the State of Wisconsin for me calling on distributors, retail and wholesale outlets. I don't think that any businessman that expects to succeed today can base his decisions on sex. You have to take the best person for the job.

Senator KASTEN. Chancellor.

Mr. SWANSON. I think one indication—in the interest of women students here, for a number of years we have always had about 50 percent men and 50 percent women in out student body. But in the early days when we had a school of home economics and a school of industry and technology, that was almost completely divided with women in home economics and men in industry and technology.

Today that is no longer true. Our second largest program, hotel and restaurant management, is in the school of home economics with many women students in it. And our school of industry and technology now has quite a few hundred women students in it in both business and industry programs.

So, from our end of it, we're seeing a tremendous interest in women students in management types of positions.

Senator KASTEN. I'd like to just say that personally, just to reflect the unanimous opinion of the panel, in Washington, DC, my legislative director, which is the second highest person in my office, the person that's in charge of all of our legislation, all of the bills that we introduce, all of the votes, whatever, is a 26-year-old woman.

I think that more and more in Washington, DC, people are recognizing that not only ought you not discriminate on the basis of sex, but you're hurting yourself if you start to limit. There are some tremendous, tremendous opportunities, and it's in our own interests, as well as the interests of equity, to move forward and ad-

BEST COPY AVAILABLE

vance both men and women at the same rate regardless of any kinds of sexual distinctions.

I think that there are particular opportunities. I didn't know the numbers were as good as you said, Dick. I knew that in small business it was just that that was the fastest group accelerating.

One more question from the audience going to Chancellor Swanson. If I were interested in an incubator testing project, who would we contact?

Mr. SWANSON. You should contact the dean of the school of industry and technology, Jim Benson, who is right over here in the right front part of it, and John Antworf, the associate dean there, who manages our Center for Innovation and Development. Either one of them can tell you, or call to my office and we can get you in contact.

Senator KASTEN. Maybe one of you could just raise your hand. Right there is the gentleman that can be the incubator expert. Mr. Healy, a question to you. Do you find a quality product can survive in this society in spite of being higher priced? And I can move that question right over to Tombstone Pizza, too. So we'll first of all ask our brewing expert. A quality product, can it make it in spite of being higher priced?

Mr. HEALY. My whole marketing plan is built around that. I am firmly convinced that Americans will purchase an American made product, even at a higher price, as long as they are not short changed on quality. The products that go into all of the Hibernia products are the finest products I can purchase. There aren't any better brands of anything than what I use in my products. And I think that's going to be the key to Hibernia's success.

Senator KASTEN. Mr. Simek, quality versus price.

Mr. SIMEK. Well there's no substitute for quality. Today I'd rather pay $1 for a hamburger I can enjoy than 85 cents for one from which I take two bites and leave the rest on the table. Look what your family members leave on their plates because they don't like the quality. If they were really hungry they'd have to eat it, but they're leaving things on their plates because the quality isn't there.

No, people will pay the price for quality, because a quality product is still the least expensive in the long run, whether it's a pair of shoes, a Tombstone pizza, a suit, or a can of corn. The people will still pay for a quality product because it is worthy of the price. And when you buy it, you get your dollar's worth.

Senator KASTEN. I would like to conclude by making a few closing statements. First of all, I would like to thank our panelists for what I think are some very important insights into small business, and I'm pleased that we were able to encourage and have some participation from our audience as well.

Second, I want to say that the record of this hearing will remain open for 10 days, during which time there may be additional questions submitted to the witnesses and the witnesses—we would appreciate if those witnesses would be back to the subcommittee with those responses.

Third, this hearing is the first of a series of hearings that we're holding. As you see, we've got the court reporter and the Small Business Committee staff people are with us. We will be putting to-

BEST COPY AVAILABLE

gether an entire record of our hearings, including the testimony in Washington, and that will be available to people who are interested in it.

For those people who are interested in statements that were made today, we have a limited number of copies of today's testimony on the table behind me. And if there are people who are interested in some of today's testimony, we're pleased to make that testimony available.

I'm committed to the idea of small business growth and entrepreneurship, to the idea of profits, risk taking and rewards. That's a commitment that I think all of us have got to share as Americans, and small businessmen and women epitomize that kind of spirit. I think it's not just an entrepreneurial spirit, as someone here suggested, it's an American spirit. And that American spirit I think is most closely embodied in the younger people of our country.

To the degree that today at UW-Stout we can excite people, younger people, in the opportunities today in the United States of America, whether it be in computers—we didn't talk about Steven Jobs, we didn't talk about Cray Research, we didn't talk about all the wonderful kinds of opportunities there are across this country in which people under 30 years old, and many cases under 25 years old, have become millionaires. But we're seeing here, in Wisconsin, some great opportunities.

So, I'm pleased that we were able to conduct this first hearing of a series at UW-Stout. I thank all of the witnesses. I look forward to working with you, and I also thank the audience.

This hearing is concluded.

[Whereupon, at 3:15 p.m., the hearing was recessed to reconvene subject to the call of the Chair.]

[Subsequent information was received and follows:]

QUESTIONS FOR ROBERT SWANSON FROM SENATOR BOB KASTEN

1. In your testimony, you mentioned your placement rate of Stout graduates as being at the outstanding level of 94%. This truly says great things about the perception in the market place about Stout's education programs. How many students are enrolled at Stout? And of that amount, how many are enrolled in your business program? How many actually participate in your Center for Innovation and Development?

1. Stout enrolled 7,730 students this year. Of that figure, approximately 4,800 students are enrolled in business/industry related programs. There are 650 students enrolled in the general business administration program.

About 50 students each semester are involved with the University's Center for Innovation and Development (CID). An additional 50 students work each semester with our incubation program. Student involvement can be independent study, class projects or special team projects.

Practical learning situations are not limited to CID and the incubation program. The University has developed a wealth of experiences both on and off campus. Stout's educational philosophy is based on "learning through involvement." Restaurants and retail outlets on campus were created as extensions of our classrooms and laboratories as were co-ops and internship programs. This continuous interchange between business and education brings new knowledge to the classroom, that keeps our programs updated.

2. When companies recruit students about to graduate, how carefully do they review the students' work in the center, and how has their experience in the center actually helped them to find employment?

2. Without a doubt, industry places a heavy value on the student who has had work-related experience whether it be in CID, the incubator program, co-op or similar activities. This is true in both our technical and service programs. Our Placement Director Robert Dahlke, reports that employers now value work-related experience above leadership experiences (clubs, organizations, etc.) and grade point.

Industry also values students who display an entrepreneurial spirit. We have observed that students whose families operate small businesses do well in the job hunt. Although there is no provable data available other than personal observation, growing up in such a setting helps mold an entrepreneurial spirit.

QUESTIONS AND ANSWERS FOR RON SIMEK

1. You and your brother have been in the national marketing spotlight for many years. Your story was even told by Fortune magazine back in the 1970's. At that time, the Tombstone Pizza Company was still considered a family operation with only a couple "outsiders" helping in the business operations. Is this still the case?

1) Tombstone Pizza is a family operation. The "outsiders" referred to in the 70's would have been D. David Sebold, Thomas R. LaBarge and Grant R. White, and they have since became "insiders." We now have several other outsiders involved in the operation of the business, however, it is still a family operation.

2. At one time, before you had those "outsiders" involved in your general operations, you had problems with the distribution of your pizzas. How were you able to turn this problem around?

2) When we realized we needed full control of our distribution, we bought out ten of the fourteen distributors. This was done to obtain full control from the manufacturing to the store level.

3. You have said that your product is available in various areas of the nation where a person has heard of your product, and has since become your local distributor. What do you see in the way of future marketing growth? Will Tombstone Pizzas someday be available nationally?

3) Tombstone Pizza has only four distributors and they have an area in which they sell our product. All other persons working for Tombstone in a selling capacity are considered route sales persons and are employed by Tombstone Pizza. They have obtained this position by either applying through an employment ad, hearing about our company and wanting to be a part of it, or after tasting our product and wanting to sell it. Tombstone has no local distributors.

Tombstone has been successful over the past five years with double digit growth even though the national average has decreased. Our goal is to have our product available to 80% of the nation.

BEST COPY AVAILABLE

4. What advice do you have for young people who might like to follow in your footsteps?

4) My advice to anyone who would want to follow my footsteps would be the following:

a. You must be very dedicated. You have to be willing to work 80 plus hours a week, including weekends and holidays.

b. Learn to listen to advice, both positive and negative, from the people around you.

c. Believe in yourself and your product. You can't sell something you wouldn't buy yourself.

d. Honesty and integrity is a must because of the reputation you are trying to build.

e. Three important areas you need to identify are your manufacturing, distribution and marketing systems. With these three areas identified, along with being properly sales oriented, you'll be a success.

BEST COPY AVAILABLE

BLANK PAGE

THE ENTREPRENEURIAL SPIRIT IN AMERICA

THURSDAY, FEBRUARY 13, 1986

U.S. SENATE,
SUBCOMMITTEE ON ENTREPRENEURSHIP AND
SPECIAL PROBLEMS FACING SMALL BUSINESS,
COMMITTEE ON SMALL BUSINESS,
Appleton, WI.

The subcommittee met, pursuant to notice, at 8:40 a.m., in room E1-14, Fox Valley Technical Institute, Hon. Bob Kasten (chairman of the subcommittee), presiding.

STATEMENT OF HON. BOB KASTEN, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KASTEN. The hearing will come to order. This is a hearing of the Senate Committee on Small Business, Subcommittee on Entrepreneurship and Special Problems Facing Small Business. Today we are continuing our hearings on the entrepreneurial spirit in America today, with a particular emphasis on students and on the opportunities for small business in Wisconsin.

Today's hearing is part of a series. We've had one hearing at UW-Stout, today's hearing in the Fox Valley, and this afternoon we're going to be at a hearing concentrating on entrepreneurs and women in business, and particularly women in small business, at Mount Mary College in Milwaukee. We then will hold hearings in Washington on entrepreneurs nationwide, and try to look at the characteristics that they have in common, their goals, and what role, if any, the Federal Government would have in developing and nuturing this entrepreneurial spirit.

We're using examples, and we also have representatives of the Small Business Administration, and also representatives of the school.

As chairman of the Senate Small Business Entrepreneurship Subcommittee, I am pleased to be here today at Fox Valley Technical Institute to discuss the subject of entrepreneurship in America. The term, "entrepreneur" has become a buzzword in the past few years describing the modern day Horatio Alger stories; the men and women who have started with nothing but ideas, who have built those ideas into incredible personal successes.

What is an entrepreneur? The dictionary says an entrepreneur is the organizer of an economic venture, one who organizes, owns, manages, and assumes the risks of a business. Well, as I'm sure we're going to find out today, an entrepreneur is all of that and even more.

BEST COPY AVAILABLE

The creation of new independent businesses by our entrepreneurs is an important American resources. And we can add to Webster's Dictionary's definition by pointing out the variety of today's entrepreneurs. They create new jobs, provide new competition to existing businesses, help to improve product quality, help to reduce prices, add new goods and services never before thought of, advance new technologies, broaden our economic and leadership base, and further advance America's competitive stance.

It should be pointed out that not every budding entrepreneur is going to be a success, even though entrepreneurship is strongly identified with America's success. In fact, more than half of the new starts in business fail within the first 5 years of operation. Of those, roughly 90 percent are due to the lack of managerial and technical experience or the underestimation of capital needed to be successful.

So although it takes more than an innovative idea to be a successful entrepreneur, you can take heart in knowing that some of history's biggest successes have also experienced failure. Many of those whom we think of as having been the most successful, in fact the most innovative, faced a great deal of difficulty in getting their ideas off the ground.

For example, do you have any idea how many bottles of Coca-Cola were sold by the Coca-Cola Co. in its 1st year of business? A million? Two million? No. Those figures aren't even close. In Coke's first year, they sold 400 bottles of Coca-Cola.

What about Henry Ford? In the 1st year he was in the automobile business he went bankrupt. Two years later his second company also failed. But through his tenacity his third corporation, today's Ford Motor Co., has been largely successful.

Across the country, Macy's is nationally known as being one of the country's premier department stores. Yet, R.H. Macy went broke with his first three dry good stores.

Had it not been for this breed of risk takers, it would be hard to imagine where we would be in America today. In fact, somewhere along the line, with every business that you see today, a risk of some sort was involved; whether it was introducing a new product, expanding into a new area, or creating a new service that no one thought possible.

It does not take a genius to figure out that no entrepreneur is going to be in the Fortune 500 right from the start. The entrepreneur must always start a new business normally as a one or a two person operation.

It is through the small businesses of America that most of our work force is employed. And we should note that small business is one of the pillars upon which our entire economy rests.

Between 1976 and 1982, approximately 1.9 million jobs were created in Wisconsin alone. Small firms generated 51.6 percent of the new jobs in the State. In 1982, of the 110,000 employee establishments recorded in our State, 89 percent were small businesses with fewer than 100 employees. It should be obvious that small business is where the jobs are, where opportunities and success can be found.

Today we're at Fox Valley Technical Institute because it's important for all of us to know more about the entrepreneurial move-

BEST COPY AVAILABLE

ment in America. Years ago, when individuals like Henry Ford were getting started, there was no government assistance available that could provide guidance. Now, government and universities and technical schools and different support groups are active on almost all levels of business development. One of the most noteworthy is the Small Business Administration. And today we're fortunate that we will be hearing from the deputy administrator of the Federal agency, Mr. Marshall Parker, who is here from Washington, DC. Educational institutions like F.V.T.I. are also playing a vital role in this development.

We chose to hold this meeting on this campus because of the excellent work that's done with its small business incubators; certainly one of the many sides to the business program that Merlin Gentz, the administrator for instructional and economic development services here at Fox Valley Technical Institute, is going to address.

What you may find the most inspirational from this assembly are the modern success stories which we have put together here today. Rather than dwell on past figures from history, it's important to realize that there are many success stories not only in New York or Los Angeles or California, but also in Neenah, Green Bay, and right here in Appleton.

We're fortunate to have with us a panel of witnesses this morning. I'd like to say that each witness will make a brief statement, we'll go through the statements of all the witnesses, after which we will ask questions. There's a system for cards for those of you in the audience if you have questions for the witnesses, and we'll collect those cards as the hearing goes on, and then we'll address some of the questions from the audience to the witnesses as well.

We're fortunate to have with us the Deputy Administrator of the Small Business Administration, the second in charge of the SBA, Marshall Parker, who will talk first about the entrepreneur from the SBA's point of view.

Mr. Parker.

STATEMENT OF MARSHALL J. PARKER, ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS, U.S. SMALL BUSINESS ADMINISTRATION

Mr. PARKER. Thank you very much, Senator Kasten, and let me thank you for the opportunity to be here today and to have a chance to talk about our favorite subject, and that is entrepreneurship. And I also want to take this opportunity, Senator, to thank you for your support of the Small Business Administration, it endeavors over the past, and I guess more importantly your support of small business. And small business as such, I think, certainly owes you a debt of gratitude.

I would like to point out before my remarks that we have with us Kurt Charter, on my right. Kurt, if you would raise your hand. He is the district director, Small Business Administration for the State of Wisconsin. He is the man that will get you what you need and do all those things that you're looking for from SBA.

I think when we look at the entrepreneurial age, we have to look into just what makes it happen, what the impact is, and what we

BEST COPY AVAILABLE

can do to maximize its effect. Is it like a tide that ebbs and flows? What is the immediate and long-range future for small business? And I think when we've examined the entrepreneurialage, just as the Senator said to begin with, we see that the impact is tremendous as far as job creation and innovation.

Our statistics show that since 1968, 30 million new jobs have been created. During that time, the Fortune 500 companies have lost 3 million jobs. It is quite evident new jobs are the result of small business startups and expansions.

Most of the jobs we've seen come about are from low technology development.

If we examined the entrepreneurial growth, we find that there has been an explosion, the lack of which the United States has never known, much less other countries around the world. Looking at what's happened last year, and some figures that we have just gotten, over 600,000 new corporations were made last year, small businesses. Over 400,000 partnerships, 300,000 self-employed, which equals 1.3 million new entrepreneurial activities within a year's time. And that's the explosion we're talking about and the entrepreneurial spirit and what's happened from it.

As Peter Drucker, a well known consultant, stated, the growth of small business is the most significant economic event in the last 100 years of this country. When you look at the large versus small, it used to be the accepted fact that small simply couldn't compete with large; that the techniques and technologies were in the sole possession of large companies. But that is no longer true. As Drucker points out, today, all of those new techniques, technologies of running a business are available at a reasonable cost to any business once it's begun. And certainly this makes a great difference.

Dave Birch, a well known researcher, stated "you can't breed entrepreneurs. You can't create them, you can't stamp them out, you can't have a mold to turn them out in a row, but you can create a breeding ground for entrepreneurship and for entrepreneurs." And I think that's what we're really talking about when we're talking about entrepreneurship, it is the breeding ground that has been created.

Along this line, in cooperation with Fox Valley Technical Institute and many others, the Small Business Administration has attempted to develop an awareness of the opportunities, and potential for small business persons to develop confidence among different groups who are—whether it's women, others, who are endeavoring to go into business or are contemplating going into business, in order that they may know what is available to them in the way of resources before they begin.

We have had a particular outreach to veterans. And I want to thank you for your interest, Senator Kasten, when I testified before you in Washington the other day, your concern for our making known to the veteran population, particular Vietnam veterans, what is available.

SBA, of course, has a number of lending programs, and this is essential as far as funding is concerned for the new and expanding small businesses. SBA is the only source today that we know of

BEST COPY AVAILABLE

that has a long-range, long-term funding. It has been vital as far as the growth of many of our industries.

Our lending programs have been fairly successful. I would like to correct a misconception. A lot of times you read that some of the programs that we have had, have had a loss rate of 22, 25 percent. This is incorrect. Our statistics show that our loss rate has not exceeded 5 percent.

In the State of Wisconsin we have a commitment of SBA dollars of over $90 million. For your information, as a comparative figure, Minnesota has $45 million, Michigan has $48 million, and Illinois has $119 million.

There are many other financing programs that SBA offers. We have small business investment companies for equity as venture capital funding. As mentioned, Coca-Cola started producing say 400 bottles a year. Apple Computer and Federal Express are similar. Both of these developed and expanded after receiving aid from SBA.

There are many other phases of our lending. We have our economic development program with community development companies, a cooperative State, Federal, and local funding partnership.

We've endeavored also to go into other fields which are now coming to fruition. The Small Business Administration put on a series of seven incubator conferences around the country to bring together all of the experts in every type of incubator set up.

We had representatives from every State in the Nation at these seven conferences, as well as several foreign countries. There's been a tremendous increase in the number of incubator projects that have amassed since then. We're talking about incubators for new and starting businesses. It's not for everyone, but it can be the solution for a lot of companies.

When a company starts up is the time it has the least amount of cash. It's just getting started and it needs to have the least cost at that particular time. An incubator system is one way of doing that. And I know that you are developing such in Wisconsin, and particularly right here at home.

We also have a program that is just relatively new, 3 years old, the Small Business Innovation Research Program, in which the Senator was one of the supporters and who helped to pass this bill and get it through the Congress. Under the SBIR Program dollars from the major research endeavors of the Department of Defense, for instance, go to small business. A certain percentage is mandatory to small business. It is in full operation now, and it helps those who have a real technical know-how, are innovative, with indepth research to get into that system and get initial grants and follow-on grants if they're chosen through that program. It is an excellent program.

In all of our undertakings we have endeavored to enlist the private sector. The Small Business Administration is not a large agency by comparison with other Government agencies. Therefore, it has been essential that we get the private sector involved with us. We have done it with institutions such as this, in working as cosponsors for programs of management assistance, to be sure that those who are going into business, where possible, develop business

BEST COPY AVAILABLE

plans, outline their marketing strategies and plan for their cash flow.

We've done this with the small business development centers in this State as well as nationwide. In this particular State, a lot of that is in the university system where they can counsel, train, and help that small business person who needs help. So along that line you can see that we have many, many programs.

I would like to say this in closing, that we would like to urge everyone who is interested in business to be sure that you inquire and you pursue those resources which are available to you. And one other final matter, and that is concerning timing and the future outlook for entrepreneurs. The timing could not be better. Today with our interest rates, our inflation rates being where they are, the outlook for a stable economy and growth over the next few years, the unfulfilled demand worldwide, the timing could not be better.

Thank you very much, Senator.

[The prepared statement of Mr. Parker follows:]

BEST COPY AVAILABLE

SBA

U.S. Small Business Administration
Washington, DC 20416

STATEMENT OF

MARSHALL J. PARKER

ASSOCIATE DEPUTY ADMINISTRATOR
FOR SPECIAL PROGRAMS

U. S. SMALL BUSINESS ADMINISTRATION

FUTURE OF ENTREPRENEURSHIP

COMMITTEE ON SMALL BUSNESS
SUBCOMMITTEE ON ENTREPRENEURSHIP

FOX VALLEY TECHNICAL INSTITUTE

APPLETON, WISCONSIN

FEBRUARY 13, 1986

BEST COPY AVAILABLE

SUDDENLY, IT SEEMS, AMERICA IS ENJOYING A NEW VOGUE, A NEW BUZZWORD: ENTREPRENEURSHIP OR ENTREPRENEUR"CHIC".

REPORTS OF MODERN ENTREPRENEURS BEGINNING THEIR TINKERING IN A GARAGE AND ENDING UP AS MILLIONAIRES, AT AGE 30 PROLIFORATE.

IF WE REFLECT BACK ON OUR OWN HERITAGE, ENTREPRENEURSHIP HAS BEEN A BASIC PART OF AMERICAN LIFE AND THE AMERICAN ECONOMY. OUR COUNTRY WAS FOUNDED BY A REBELLIOUS BAND OF SHOPKEEPERS AND ARTISANS.

WHAT WE ARE EXPERIENCING IS A REDISCOVERY OF WHAT ENTREPRENEURS MEAN TO OUR SOCIETY. WE ARE DISCOVERING SMALL BUSINESSES ACCOUNT FOR TWO OUT OF EVERY THREE NEW JOBS CREATED, PROVIDE JOB TRAINING TO NEW WORKERS, EMPLOY THE YOUNG, WOMEN AND THE ELDERLY.

BEST COPY AVAILABLE

WE ARE REDISCOVERING THAT THE ECONOMIC HEALTH OF AMERICA DEPENDS ON THE HEALTH OF SMALL BUSINESS AND THE ENTREPRENEURS.

THE 1980'S ARE THE DECADE OF THE ENTREPRENEUR. THE NUMBERS TELL A COMPELLING STORY:

NEW BUSINESS INCORPORATIONS ARE REPORTED IN RECORD-BREAKING NUMBERS -- ALMOST 2 MILLION IN ONLY THE LAST THREE YEARS.

MORE THAN 20 MILLION NEW JOBS IN 10 YEARS GENERATED BY SMALL BUSINESS ENTREPRENEURS.

AND ALONG THE WAY HAVE COME NEW INDUSTRIES AND NEW PRODUCTS. TWO OUT OF EVERY THREE NEW ONES ARE SMALL BUSINESS GENERATED. EVERYTHING FROM ERASABLE MEMORY COMPUTER CHIPS TO FAST-GROWING REGIONAL AIRLINES.

BEST COPY AVAILABLE

WE SHOULD ASK OURSELVES A BASIC QUESTION ABOUT OUR NEW BUZZWORD:

WHY?

WHY ARE MORE MEN AND WOMEN TAKING THE RISK OF BECOMING THEIR OWN BOSSES? WHY ARE MORE AND MORE BUSINESS SCHOOL GRADUATES FORSAKING LOW-RISK JOB OPPORTUNITIES WITH LARGE FIRMS AND STARTING THEIR OWN ENTERPRISES OR JOINING SMALL FIRMS? WHY ARE SO MANY BIG CORPORATE EXECUTIVES DROPPING OUT TO BECOME INDEPENDENT ENTREPRENEURS?

FOR ONE ANSWER, WE CAN LOOK TO THE CONTINUING INDEPENDENT SPIRIT THAT HAS LIVED IN THIS COUNTRY FROM THE BEGINNING. BEING YOUR OWN BOSS HAS ALWAYS BEEN AN AMERICAN DREAM.

THEN AGAIN, WE CAN LOOK TO THE PERSONAL AND PHYSICAL RESTRAINTS ASSOCIATED WITH CORPORATIONS.

BEST COPY AVAILABLE

WE ALSO SHOULD LOOK TO THE NEW ATTITUDE OF GOVERNMENT. GOVERNMENT CANNOT, AND CERTAINLY SHOULD NOT, ORDER A MAN OR WOMAN TO BECOME AN ENTREPRENEUR. GOVERNMENT SHOULD NOT DICTATE TO ANY COMPANY, LARGE OR SMALL, WHAT PRODUCT IT SHOULD MAKE, OR HOW MANY. SUCH AN INDUSTRIAL POLICY WOULD BE DETRIMENTAL TO THE INDIVIDUAL, TO THE COMPANY AND TO AMERICAN SOCIETY.

GOVERNMENT CAN CREATE AN ECONOMIC CLIMATE TO ENCOURAGE ENTREPRENEURSHIP, TO ENCOURAGE PEOPLE TO START THEIR OWN BUSINESSES AND TO ENCOURAGE THE CREATION OF NEW IDEAS, NEW PRODUCTS, AND NEW TECHNOLOGIES.

THE U.S. SMALL BUSINESS ADMINISTRATION HAS BEEN IN THE BUSINESS OF HELPING AMERICAN ENTREPRENEURS SINCE 1953. CONGRESS CREATED OUR SMALL, INDEPENDENT EXECUTIVE BRANCH AGENCY AND DEFINED ITS MISSION:

61-535 0 - 86 - 3

BEST COPY AVAILABLE

"TO AID. COUNSEL. ASSIST AND PROTECT...THE INTERESTS OF SMALL BUSINESS CONCERNS IN ORDER TO PRESERVE FREE COMPETITIVE ENTERPRISE."

WE HAVE BEEN CARRYING OUT THAT MISSION EVER SINCE. AND IN DOING SO HAVE BEEN BOOSTING ECONOMIC DEVELOPMENT THROUGHOUT THE COUNTRY.

SBA HAS MADE 500.000 BUSINESS LOANS WORTH $40 BILLION. IN THE STATE OF WISCONSIN. SBA HAS APPROXIMATELY 9.000 BUSINESS LOANS IN OUR PORTFOLIO FOR $910.5 MILLION. THIS FINANCIAL ASSISTANCE HAS ENABLED THOUSANDS OF ENTREPRENEURS TO ACHIEVE BUSINESS SUCCESS THAT MIGHT HAVE BEEN IMPOSSIBLE WITHOUT SBA HELP.

THE LONG-TERM LOSS RATE ON THESE BUSINESS LOANS HAS BEEN SLIGHTLY UNDER FIVE PERCENT -- AN EXCELLENT RECORD WHEN YOU CONSIDER THAT OUR LOANS GO MOSTLY TO CLIENTS WHO ARE TURNED DOWN INITIALLY BY PRIVATE LENDERS.

BEST COPY AVAILABLE

UNDER THE PRESENT ADMINISTRATION, SBA IS TURNING OVER MORE LOAN PAPERWORK AND ADMINISTRATION TO THE PRIVATE SECTOR. BETTER UTILIZING THE AGENCY'S LIMITED PERSONNEL.

IN THE FINANCIAL AREA, SBA RECENTLY INSTITUTED A LOAN POOLING AGREEMENT WITH SELECTED BANKS. ONE OF THESE IS THE FIRST WISCONSIN NATIONAL BANK OF MILWAUKEE.

THROUGH THESE POOLING AGREEMENTS, INVESTORS ARE OFFERED THE OPPORTUNITY OF BUYING INTO A POOL OF SBA LOANS. THESE LOANS HAVE THE FULL FAITH AND CREDIT GUARANTY OF THE FEDERAL GOVERNMENT.

THIS POOLING ARRANGEMENT MAKES MORE FUNDS AVAILABLE FOR SMALL BUSINESS LENDING BY PRIVATE INSTITUTIONS, AT LOWER INTEREST RATES.

TO SPUR ECONOMIC DEVELOPMENT SBA LICENSES SMALL BUSINESS INVESTMENT COMPANIES. SBICs ARE PRIVATE FIRMS WHICH MAKE

BEST COPY AVAILABLE

LONG-TERM LOANS AND EQUITY CAPITAL INVESTMENTS IN SMALL FIRMS. THE FIRMS RECEIVING SBIC ASSISTANCE ARE USUALLY NEW AND EMERGING INDUSTRIES.

SBICs LICENSED BY SBA HAVE INVESTED $5 BILLION IN MORE THAN 60,000 SMALL BUSINESSES. APPLE COMPUTER, FEDERAL EXPRESS, WANG LABORATORIES AND PEOPLE EXPRESS ARE A FEW OF THE COMPANIES RECEIVING THIS ASSISTANCE.

THE SMALL BUSINESS INNOVATION RESEARCH PROGRAM, SIGNED INTO LEGISLATION BY PRESIDENT REAGAN IN 1982, IS ANOTHER MAJOR ECONOMIC DEVELOPMENT TOOL. THIS PROGRAM DIRECTS AN INCREASING SHARE OF RESEARCH CONTRACTING TO SMALL COMPANIES.

UNDER THIS EXCITING AND PROMISING PROGRAM SMALL FIRMS RECEIVED $100 MILLION IN R&D WORK IN 1984 AND ABOUT $200 MILLION IN 1985.

BEST COPY AVAILABLE

SBA. THROUGH ITS STATE AND LOCAL DEVELOPMENT PROGRAM. WORKS WITH COMMUNITY LEADERS IN DETERMINING NEIGHBORHOODS AND SMALL BUSINESSES THAT NEED SPECIAL ATTENTION. THESE LEADERS THEN FORM DEVELOPMENT COMPANIES. SBA MUST FIRST CERTIFY THE COMPANIES BEFORE PROVIDING FINANCIAL ASSISTANCE. IN THREE YEARS. SBA HAS CERTIFIED ALMOST 600 DEVELOPMENT COMPANIES. THESE COMPANIES LOANED MORE THAN 4.500 SMALL BUSINESSES OVER $900 MILLION.

SBA'S STATE AND LOCAL DEVELOPMENT PROGRAM IS AN EXCELLENT EXAMPLE OF GOVERNMENT AND PRIVATE SECTOR WORKING TOGETHER TO SAVE BUSINESSES. CREATE JOBS AND REVITALIZE LOCAL COMMUNITIES.

THREE OUT OF FOUR SMALL BUSINESSES FAIL DURING THEIR FIRST 3-5 YEARS. REASONS FOR FAILURE INCLUDE POOR MANAGEMENT AND/OR POOR MARKETING. LACK OF ADEQUATE CASH FLOW AND INSUFFICIENT CAPITAL INVESTMENT. INCUBATORS ARE ONE ATTEMPT TO REDUCE SMALL BUSINESS FAILURES BY OVERCOMING SOME OF THESE OBSTACLES.

BEST COPY AVAILABLE

INCUBATORS CAN NURTURE THE BUSINESSES IN THEIR EARLY STAGES. THEY OFFER BELOW-MARKET RENTS, ACCESS TO SHARED EQUIPMENT, AND SERVICES, SUCH AS MANAGEMENT ASSISTANCE, RECEPTIONISTS, SECRETARIES, COPYING MACHINES, ETC.

WHILE SOME OPERATE ON A FOR-PROFIT BASIS AND HAVE THE CAPACITY TO OFFER VENTURE CAPITAL, OTHERS HAVE A GOAL OF JOB CREATION AND ECONOMIC REJUVENATION. A GROWING NUMBER OF COMMUNITIES AROUND THE COUNTRY ARE EXPERIMENTING MORE AND MORE WITH SMALL BUSINESS INCUBATORS AS ONE ELEMENT OF THEIR BUSINESS ECONOMIC DEVELOPMENT.

CURRENTLY, WISCONSIN HAS IN OPERATION TWO SUCH INCUBATORS, ONE THAT IS SCHEDULED TO OPEN IN THE SPRING, AND A NUMBER OF OTHERS THAT ARE IN THE DEVELOPMENT OR PLANNING STAGES.

THE MADISON BUSINESS INCUBATOR WAS THE FIRST TO OPEN IN WISCONSIN IN OCTOBER OF 1984. IT HOUSES 12 FIRMS AND EMPLOYS 25 PEOPLE.

BEST COPY AVAILABLE

THE INCUBATORS ARE LOCATED IN A RENOVATED OFFICE BUILDING. FUNDS WERE MADE AVAILABLE THROUGH A FEDERAL COMMUNITY DEVELOPMENT BLOCK GRANT AND A PRIVATE NON-PROFIT ORGANIZATION CALLED "WISCONSIN FOR RESEARCH." THE INITIAL MONEY FUNDED THE FACILITY THROUGH THE FIRST YEAR OF OPERATION.

THE FACILITY IS NOW SELF SUPPORTING.

THE TENANTS ARE HALF START-UP FIRMS AND HALF HOME BASED BUSINESSES WHO WANTED TO EXPAND. THEY INCLUDE A COMPANY PRODUCING A WEATHER PRODUCT USED IN MARINE WEATHER TRANSMITTING. SEVERAL COMPUTER RELATED BUSINESSES. ENGINEERING CONSULTING FIRMS. AND A MARKET RESEARCH FIRM.

ALL OF THESE FIRMS SHARE SECRETARIAL. RECEPTIONIST. TELEPHONE ANSWERING. COPIER. CONFERENCE ROOM. AND KITCHEN FACILITIES. THIS KEEPS THEIR OVERHEAD COSTS DOWN.

BEST COPY AVAILABLE

THE SECOND INCUBATOR TO OPEN WAS THE ADVOCAP SMALL BUSINESS CENTER OF FOND DU LAC, WISCONSIN. ADVOCAP HAS ONLY BEEN OPEN SINCE JULY 1985 BUT THEY ALREADY HAVE 8 FIRMS AND EMPLOY 33.

ADVOCAP IS A COMMUNITY ACTION AGENCY WHICH HAS BEEN AROUND FOR ABOUT TWENTY YEARS. THEY PURCHASED A BUILDING FROM THE COUNTY WITH A $ 15.000 GRANT FROM THE WISCONSIN COMMUNITY ECONOMIC DEVELOPMENT FINANCE AUTHORITY. OPERATION COSTS COME FROM TENANT RENTS SUBSIDIZED WITH MONEY FROM THE ADVOCAP OPERATING BUDGET. THE BUILDING WAS BUILT AS A FEDERAL WORKS PROJECT IN THE 1930'S AS A POST OFFICE AND FEDERAL BUILDING.

THE TENANTS WERE ALL START UP FIRMS, INCLUDING A FIRM THAT MARKETS AND INSTALLS COMPUTERIZED HEATING AND AIR CONDITIONING, A SMALL HOME CONTRACTING COMPANY, A SILK SCREEN AND PRINTING COMPANY, AND A CLOCK REPAIR BUSINESS.

BEST COPY AVAILABLE

SBA HAS PLAYED A KEY ROLE IN RAISING THE AWARENESS OF THE NATION, THE STATES, AND THE COMMUNITIES OF THE OPPORTUNITIES AFFORDED SMALL BUISNESSES HOUSED IN INCUBATOR FACILITIES.

MR. CHAIRMAN, I THINK IT IS FAIR TO CONCLUDE THAT SBA HAS PLAYED A ROLE IN ASSISTING THE ENTREPRENEUR.

WHAT ENTREPRENEURS ALWAYS HAVE WANTED -- AND NEEDED -- IS A SOCIETY, A GOVERNMENT, WHOSE POLICIES ARE STEADY AND CONTINUOUS. SUCH POLICIES ARE VITAL IF ENTREPRENEURS ARE TO BE ENCOURAGED TO START NEW BUSINESSES, TO EXPAND OLD ONES, TO DETERMINE THEIR OWN LONG-RANGE PROGRAMS. ENTREPRENEURS CANNOT BE YANKED UP AND DOWN LIKE A YO-YO BECAUSE OF CHANGING AND UNFAIR AND UNPRODUCTIVE GOVERNMENT ACTIONS.

PRESIDENT REAGAN HAS SET THE NATION ON SUCH A STEADY AND CONTINUOUS COURSE. HIS ADMINISTRATION HAS GIVEN THE NATION A NEW

BEST COPY AVAILABLE

SENSE OF INDEPENDENCE. HIS ADMINISTRATION IS A MAJOR REASON WHY MORE AND MORE PEOPLE ARE SAYING THAT AMERICA IS ENJOYING A REBIRTH OF THE ENTREPRENEUR.

AS YOU CAN SEE MR. CHAIRMAN, ENTREPRENEURSHIP IS NOT DEAD. IT IS ALIVE AND KICKING. KICKING TO MAKE ROOM FOR THOSE WHO STILL BELIEVE IN THE AMERICAN DREAM, WHO ARE NOT AFRAID TO JOIN TOGETHER WITH OTHERS JUST LIKE THEMSELVES. ENTREPRENEURS WHO ARE WILLING TO SEEK ASSISTANCE FROM THEIR COMMUNITY AND THE FEDERAL GOVERNMENT SO THAT, TOGETHER, OUR ECONOMY CAN GROW. THESE ARE THE RISK TAKERS AND THANK GOD FOR THEM.

BEST COPY AVAILABLE

Senator KASTEN. We thank you very much. Our second speaker this morning will be Merlin Gentz of Fox Valley Technical Institute. Mr. Gentz will tell us what we're doing right here at this institution to prepare students for the business world.

Mr. Gentz, first of all, thank you for your hospitality, and we appreciate the fact that you have been willing to let us hold this hearing today. Thank you very, very much for that. On behalf of—for all your staff as well, we thank you.

STATEMENT OF MERLIN GENTZ, ADMINISTRATOR, INSTRUCTIONAL & ECONOMIC DEVELOPMENT SERVICES, FOX VALLEY TECHNICAL INSTITUTE

Mr. GENTZ. On behalf of the Fox Valley Technical Institute district, we certainly welcome you, Senator Kasten. We're very honored to have been selected as a site for your subcommittee hearing.

Fox Valley Technical Institute, as you realize is 1 of 16 vocational technical districts which serve the entire State of Wisconsin. FVTI annually serves approximately 5,000 people in its associate degree and vocational diploma programs, and approximately 45,000 other individuals who take at least one course from the FVTI during the course of the year.

We have a penetration into our market of about 1 out of every 7 citizens taking a course from this district. We are governed by a nine member board. We have 62 full time associate degree and vocational diploma programs, and the full-time and part-time staff, as well as the curriculum of these programs, serve as the core of our instructional offerings.

FVTI is nationally recognized for its flexibility and scheduling and delivery of instructional products, and for its competency based curriculum and its applications of alternative modes of delivering instruction; paramount of which is its utilization of the computer.

FVTI was recently honored by being selected as 1 of 6 outstanding vocational technical institutes in the United States. During my testimony I will address the role FVTI currently plays in meeting the educational needs of the small business community by its economic development efforts. I will further elaborate upon the role the organization plays in the technical research and incubator, or TRI-Park, which is currently under development surrounding the Fox Valley Technical Institute. And I will stress how this involvement will enhance the capabilities to deliver to all businesses and industries of this area.

Economic development at Fox Valley Technical Institute is an organized effort to assist existing businesses to expand or become more productive, and to aid in attracting or developing new businesses. This means retraining area employees in new technologies, upgrading present employees in areas that include communications, human relations, and job skills. Providing technical services such as task surveys, job design, or analysis of staff training needs is also part of our role. We provide customized job training at the times, locations, and in ways that best meet the specific needs of the business.

This needs to be accomplished and is accomplished here in a very rapid fashion. We're talking about days and weeks to the point of delivery, not months and years.

Back in 1981, after having had a rich history of having served business and industry, the district began to look very seriously at the task of being more responsive to the specific needs of area businesses. The district was chosen to develop a statewide model for VTAE district involvement in economic development. From this model, the local Fox Valley plan emerged, and an economic development division was created.

The initial project involved training 400 employees for a local hotel and convention center in 1981—this being the Paper Valley Hotel and Conference Center, and you will hear about that just a little bit later from its president. I understand you stayed there this past evening.

Since that time the program has grown rapidly. Last year the district implemented 432 such customized training and technical service contracts involving the training of approximately 7,000 people in the work force. The year 1985–86 will see another dramatic increase from those figures.

In addition to the valuable assistance provided to business and industry, agriculture and government, a primary benefit of this integrated approach is that by functioning through existing departments of the institution, economic development activities strengthen full-time programs, and vice versa. Existing areas of instruction may be explored and new areas of instruction emerge because of our relationships and experiences.

A secondary benefit of this approach is the opportunity for professional growth of individual staff members through participation and emerging in specialized training.

The technical research and incubator, or TRI-Park, is a result of an active partnership with the community in economic development. The TRI-Park concept is based on the belief that a multitenant office/industrial park, which has a defined cooperative arrangement with a comprehensive technical college, will have a better chance to succeed than one that does not have such an arrangement.

TRI-Park is a joint venture of the Fox Cities Chamber of Commerce and Industry, Outagamie County, Northern Lake Winnebago Private Industry Council, Job Service, area schools of higher edication, other regional agencies, and business and industry of the area. TRI-Park consists of a multiuse commercial real estate project of approximately 320 acres of land which surrounds Fox Valley Technical Institute.

The purpose of its development is not to create another typical industrial park, rather, the goal is to create a comprehensive business-education environment conducive to start-up businesses, while encouraging product research and fostering product development operations.

The hope is that highly technical, service oriented firms or emerging industry will locate here and diversify the industrial base of the region. An attractive, campus-like environment is being provided for in TRI-Park. Such a unique environment is very limited in the State of Wisconsin and indeed the Midwest.

COPY AVAILABLE

Fox Valley Technical Institute is currently entering into an era of new technology with economic development ventures that are essential to the well-being of both industry and business as well as the district. This not only relates to the overall philosophy of the district, but also provides unique and necessary opportunities for FVTI students and faculty.

With rapidly changing technology and increased fiscal constraints, it is essential that every full-time instructional program at this institution engage in some type of collaborative activity with business and industry. These real life experiences will ensure that students obtain on-the-job instruction which cannot be provided for in the school setting. This will offer experiences on equipment which is up-to-date, while working on projects and in activities with those actually employed in business and industry. This is an underlying objective of Fox Valley Technical Institute's involvement in TRI-Park.

While the TRI-Park concept places FVTI in the role of assisting agencies in the recruitment of new industries to the region, it should be stressed that such involvement has an additional important goal of improving the school's programs.

Here are some of the services that are provided to not only TRI-Park residents, but also small businesses and in other businesses and industries in our region. Quick start instructional programs; customized instruction which relates directly to the specific firm's needs. Technical assistance and consulting services; an array of services available to meet individual needs of tenants and business citizens of the district are available through Fox Valley Technical Institute and other area institutions of higher learning.

Tenant staff development services. Career development and placement services. Research and library services. Employee testing services. Cooperative work experience arrangements between this institution and the businesses and industries.

We're excited about the growth and development of the TRI-Park. One of the first buildings in the TRI-Park will be FVTI's D.J. Bordini Technological Innovation Center. This center will provide services for inventors and entrepreneurs, small businesses, as well as the larger businesses and industries. Here they can receive assistance in developing their ideas and concepts into a viable product.

The building is designed to accommodate the needed training services on a flexible schedule for TRI-Park tenants and community participants. The school will enhance its efforts to work directly with business, industry and agencies to identify the participant's needs and meet those needs through customized training and technical assistance programs. A communications network will be established to assist with the coordination of community resources and to provide direct assistance as needed.

This will provide a targeted group with access to local expertise in order to foster new business development. Included in the TRI-Park D.J. Bordini Technological Innovation Center will be a technical resource area, a professional and trade association center, a telecommunications center, a conference center, a product development center, and a high technology demonstration area.

BEST COPY AVAILABLE

I am pleased to have had this opportunity, Senator Kasten, to testify before your subcommittee. My hope is that with other testimony received by your subcommittee that we will further the development of the spirit of entrepreneurship, and a successful start-up of many small business across this country. After all, this is what has made America great.

Thank you.

[The prepared statement of Mr. Gentz follows:]

BEST COPY AVAILABLE

SENATE SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON ENTREPRENEURSHIP HEARING - FEBRUARY 13, 1986

Fox Valley Technical Institute's Role in the Development of Entrepreneurship and Small Business

as presented by

Merlin Gentz
Administrator
Instructional & Economic Development Services

Fox Valley Technical Institute
P.O. Box 2277
Appleton, Wisconsin

BEST COPY AVAILABLE

ROLE OF TECHNICAL COLLEGE

Economic development involves efforts to improve the productivity and profitability of business and to create new jobs and qualified workers to fill them. This implies that Wisconsin, and indeed the Nation as a whole, must focus on developing the key elements of capital, entrepreneurship, and a skilled work force. This task can best be accomplished through a synchronized effort of all parties who have interest in the economic development of the region. Fox Valley Technical Institute has a key role in this partnership. A closer look reveals the specific kinds of potential involvement.

Pre-employment training has traditionally been a responsibility of vocational-technical education, and will continue to be a primary function. Such pre-employment training should increasingly include on-the-job training opportunities for students. Changing technology and increasing equipment costs make it incumbent upon technical schools to rely on business-industry cooperative training programs as a means to continue relevant curriculum while limiting high costs of equipment purchase and maintenance.

There must also be organized efforts by the technical college to help business to expand and become more productive and to help in attracting or developing new business. This means providing retraining, upgrading, technical assistance, and initial job training at times, locations, and in a format that best meets the needs of a specific business. In this significant effort the community college becomes a partner in job development and training.

The general goal, therefore, of the economic development efforts of the technical college is to help surrounding communities and individuals in:

1. Assisting employers in maintaining competitive productivity by providing well-trained graduates with the desire and the ability to produce.

2. Helping employers to take better advantage of human potential available to them through the delivery of instructional programs which help people to be employed at or near their potential.

3. Stabilizing or expanding their economic well-being through cost effective and efficient educational programs.

EMPLOYER/SCHOOL RELATIONSHIPS

Employers and educators need each other in today's technological age. There is not only an urgent need to train a work force which can adjust with each successive wave of technological change, but also a need to retrain individuals who are already in the work force with advanced levels of skill and technical understanding.

BEST COPY AVAILABLE

Business, industry, government, and educational institutions must form a coalition that provides better opportunities for business/industry and the communities of the region while advancing the teaching/learning environment of the schools and creating or stabilizing jobs.

The rationale for close relationships between technical colleges and business, industry, labor, and agriculture has a historical foundation. The use of advisory committees in program design, implementation, and evaluation has long been established as a requirement to ensure curriculum relevancy and program quality. A program of continuous contacts with persons "in the field" has been the hallmark of quality vocational-technical programs.

However, the added responsibility of community colleges to assume an assertive role in economic development focuses on different ways to work with the ultimate consumer of our products--the employers of program graduates and those currently employed who need retraining. In this new environment, technical college students, staff, and trustees must develop active relationships with business and industry, agriculture, community-based organizations, labor unions, and local and state government agencies.

This involvement is vital to the quality of community college vocational-technical programs, especially as it relates to:

1. Providing opportunities for students to receive relevant learning experiences in actual job settings.

2. Providing professional development activities for technical college faculty through the exposure of latest equipment and newest techniques--all gained in a variety of innovative, cooperative ventures.

3. Working with community and private industrial development ventures and cooperative activities related to relocating and expanding of business and industry within the region served by the institute.

ECONOMIC DEVELOPMENT AT FOX VALLEY TECHNICAL INSTITUTE

Economic development at Fox Valley Technical Institute is an organized effort to assist existing businesses to expand or become more productive and to aid in attracting or developing new businesses. This means retraining area employees in new technologies; upgrading present employees in areas that include communications, human relations, or job skills; providing technical services such as task surveys, job design, or analysis of staff training needs; and providing customized job training at the times, locations, and in ways that best meet the specific needs of business.

The college has prepared for this effort in several ways. Several years ago, the District began to move toward an open-entry, open-exit, year-round system of competency-based instruction. At the same time, efforts were made to acquire

BEST COPY AVAILABLE

equipment and upgrade staff in order to provide a flexible, up-to-date, quality vocational-education program. The District initiated an intensive technology program using computers to assist in teaching and managing the college. The use of media and technology in instruction was implemented and teachers became managers of learning activities, rather than disseminators of information.

Then in 1981, the District began to look very seriously at the task of being more responsive to the specific needs of area businesses. The district was chosen to develop a statewide model for VTAE District involvement in economic development. From this model, the local Fox Valley plan was built, and an Economic Development Division was created. The initial project involved training 400 employees for a local hotel and convention center in 1981. The program has grown rapidly and in 1984-85, the District implemented 400 customized instruction and technical service contracts involving the training of approximately 7,000 persons in the work force. The year 1985-86 will see another dramatic increase.

The Fox Valley Technical Institute Economic Development Division is responsible for coordination of training and services to business clients. When the staff find a need in the business community, the information is given to the appropriate instructional division within the institution. Courses or services are planned and provided by staff from existing program areas. The Economic Development Division serves as a liaison and coordinating unit which is responsible for planning with division staff, monitoring the delivery, and evaluating the effectiveness of the instruction or activity. The Economic Development staff develops and maintains a long-term contact with individual businesses.

In addition to the valuable assistance provided to business, industry, agriculture and government, a primary benefit of this integrated approach is that by functioning through existing departments of the institution, economic development activities strengthen full-time programs. Existing areas of instruction may be explored and new areas of instruction introduced. A secondary benefit of this approach is the opportunity for professional growth of individual staff members through participation in emerging and specialized training.

FVTI's Economic Development Plan includes a blueprint for the 1980's and beyond. Cooperative, futuristic thinking and planning with the business community are the keys to developing a sound, long-range economic base for the entire Fox Valley region. The Institute's strategic planning process is used to design the blueprint for the future in economic development. To assist in creating an atmosphere for that to happen, FVTI, through its advisory committees, is initiating the following types of business-education linkages:

1. Design of a formal faculty/student cooperative education program with business and industry for each full-time program of the institute.

BEST COPY AVAILABLE

2. Construction of a High Technology Demonstration and Training Center to assist business and industry with productivity and staff development.

3. Design and implementation of incubator facilities as a vehicle for new businesses to emerge.

4. Use of telecommunications (interactive/television/computers) linkage with district businesses and industrial plants and other firms through cable television and instructional television fixed service (FVTI TechNET).

5. Design and implementation of a (Technical-Research-Incubator) TRI-Park.

FOX VALLEY TRI-PARK

The Fox Valley (Technical-Research-Incubator) TRI-Park is a result of an active partnership with the community in economic development. The TRI-Park concept is based on the belief that a multi-tenant office/industrial park which has a defined cooperative arrangement with a comprehensive technical college will have a better chance to succeed than one that does not have such an arrangement.

Fox Valley TRI-Park is a joint venture of the Fox Cities Chamber of Commerce, Outagamie County government, Northern Lake Winnebago Private Industry Council, Job Service, area schools of Higher Education, other regional agencies, and business and industry of the area. TRI-Park consists of a multi-use commercial real estate project of approximately 320 acres of land surrounding Fox Valley Technical Institute. The purpose of its development is not to create another typical industrial park. Rather, the goal is to create a comprehensive business-education environment conducive to start-up businesses, while encouraging product research, and fostering product development operations. The hope is that highly technical, service-oriented firms or emerging industry will locate here and diversify the industrial base of the region. An attractive, campus-like environment is being provided for TRI-Park. Such an unique environment is very limited in the state of Wisconsin and the Midwest.

Because of its uniqueness, this development is not designed to compete actively with private and public developments within the region. Rather, it seeks to attract tenants who would not otherwise consider expanding or relocating in this area. The project is founded on the notion that the area is in need of an industrial park that is targeted to clientele different from that currently being served. The goal from the beginning has been to create an environment for firms that would benefit from a close relationship with Fox Valley Technical Institute. According to the Fantus Company report, "A well-planned and tightly controlled industrial park offers a firm several advantages: a prepared site with the necessary zoning approvals in place; controls and standards to ensure that land values are protected and that operations will be compatible with surrounding neighborhoods; and a road network designed to allow efficient movement of the goods."

The Fantus report adds that, "The shift in economic development to light manufacturing, research and development services, and office activity places a new emphasis on the attractiveness of the work environment." The research firm feels that foreign firms would especially be attracted to this type of prestigious park that includes lakes, green belts, wellness trails, restrictive covenants, architectural controls and a special relationship with Fox Valley Technical Institute and other schools of higher education.

Justification for FVTI's Involvement

Fox Valley Technical Institute is entering into an era of new technology with economic development ventures that are essential to the well-being of both Business/Industry and the District. This not only relates to the overall philosophy of the District, but also provides unique and necessary opportunities for FVTI students and faculty.

With rapidly changing technology and increased fiscal constraints, it is essential that every full-time instructional program engage in some type of collaborative activity with business and industry. These real-life experiences will ensure that students and faculty obtain on-the-job instruction which cannot be provided in the school setting. This will offer experiences on equipment which is up-to-date, while working on projects and in activities with those actually employed in business and industry. This is an underlying objective of Fox Valley Technical Institute's involvement in TRI-Park. While the TRI-Park concept places FVTI in the role of assisting agencies in the recruitment of new industries to the region, it should be stressed that such involvement has an additional important goal of improving the school's programs.

TECHNICAL PARK TENANTS

TRI-Park will recruit product research and development operations, highly technical and service-oriented firms, and light industries that have an interest in expanding or developing new businesses in a well-planned, tightly controlled, campus-like atmosphere. All tenants would agree to strict regulatory covenants to ensure a quality complex and guarantee educational planning with the technical school. The following types of tenants are being recruited to locate in the TRI-Park:

Association or Agency Training Headquarters:

One section of TRI-Park is designated for national or regional training headquarters of associations or agencies. These training facilities will be used in two ways:

- To provide training and other services for the association or agency staff employees from the region, or in some cases from throughout the country, and the world.

BEST COPY AVAILABLE

- To provide specialized training for full-time students who are attending Fox Valley Technical Institute enrolled in vocational or technical programs and area workers enrolled in retraining or upgrading programs on a part-time basis.

In such a facility, a training director may be employed by the association and specialized equipment would be donated by the association or agency. A number of services could be provided by Fox Valley Technical Institute including maintenance, food services, media services, word processing services, and data processing services. This type of working relationship will have a positive effect on the learning experiences of many regular students at the Institute. The school will use the training facilities and have access to new equipment for occupational training. In addition, there would be upgrading experiences for FVTI instructors and opportunities for the use of media and other instructional resources which are donated by the parent organization.

Demonstration/Marketing Center:

Another section of TRI-Park is to be used for demonstration and marketing of equipment. New equipment will be moved into these facilities as it is released by the manufacturer for use by business and industry, and the equipment will be used for training purposes by FVTI. While the equipment is being used for instruction, it will also be available for special demonstrations to potential purchasers. Faculty and students will be involved in the marketing demonstrations with actual learning activities being conducted while using the equipment in a marketing mode.

The Demonstration/Marketing Center will have a positive effect on learning experiences since students will be obtaining competencies on the latest equipment available. Both students and staff will receive real-life experiences on updated equipment being introduced to the region.

Research and Development Center:

In cooperation with the University of Wisconsin, Lawrence University, the Institute of Paper Chemistry, and other area institutions of higher education, as well as regional business and industrial concerns, a section of the Technical Park is devoted for research and development. These facilities will be used to conduct research on new products and new services for area business and industry. Such a center might be established by an individual firm, or it might be organized to serve a number of related businesses or industries. In this research and development setting, engineers, technicians, and interns from the universities and student technicians from Fox Valley Technical Institute will work together on various projects. The R&D concept will be especially attractive to Fox Valley Technical Institute since it will provide rare opportunities for instructors and students to interact with engineers and technicians on projects related to programs which are offered at FVTI.

BEST COPY AVAILABLE

Incubator Mall for Small Business and Industry:

Another section of TRI-Park will be reserved for an Incubator Mall. Incubators signal a new approach to economic development, one that emphasizes the importance of cooperation, rather than raw competition, in the building of a better business climate. In the past few years, incubators have been started by universities, community colleges, local governments, community development corporations, and for-profit corporations, such as Control Data Corporation. While an incubator mall is included in the immediate plans for location in the Fox Valley TRI-Park, it should be noted that incubators can be located anywhere in the region and the Institute can still be involved in numerous ways.

The TRI-Park Incubator Mall will include a group of small business enterprises. Each of these businesses will lease space from the TRI-Park Corporation for a specific period of time. Upon completion of the lease, the new business will obtain its own venture capital and will relocate to another area, preferably to a community or private industrial development area.

Despite the growing importance of entrepreneurship in our economy, new and expanding young firms face serious barriers to obtaining adequate and affordable space, organizing and managing a business, securing financing, and finding qualified employees. Although most young manufacturing firms do not need a large space in which to operate, suitable small spaces are usually limited and more expensive than larger building spaces. Finding skilled management and employees can be difficult for a business providing a new product and service.

The industrial incubator is a vehicle for reducing these obstacles. An incubator is a place where small businesses can get started with inexpensive rent and/or flexible work space. Some facilities also offer management and training assistance as well as business services and financial help to their tenant firms. Incubators can benefit entrepreneurs by:

1. Creating a synergy among tenant firms--tenants often share equipment and give each other business.

2. Eliminating business maintenance responsibilities.

3. Providing an environment where they are not alone, thereby reducing the anxiety of starting a new business.

4. Increasing their visibility.

New Technology Firms

In addition to these targeted tenants, it is anticipated that a number of new technology firms will locate in TRI-Park. Restrictive covenants will ensure that the firms have a relationship to one or more programs at FVTI and that a written educational plan is prepared and updated yearly.

BEST AVAILABLE

An important factor that will contribute to the success and quality of the TRI-Park is the relationship of Fox Valley Technical Institute to the tenants. The supportive nature of this institution is an asset to the recruitment of firms to the Park. In addition to its direct involvement in recruiting industries, the following services will be made available to all TRI-Park tenants:

- **Quick-Start Instructional Programs** - Customized instruction which relates directly to the specific firm is available upon request. This includes the design of course work, the construction of media packages and learning kits which are correlated with the skills required for employees, as well as the actual delivery of instruction to prepare employees for the start-up.

- **Technical Assistance and Consulting Services** - An array of these services is available to meet the individual needs of tenants and the availability of FVTI and area universities to provide the services which are requested.

- **Tenant Staff Development Services** - Assistance will be provided as requested in the design and implementation of a staff development plan for each tenant in the TRI-Park.

- **Career Development Placement Services** - A comprehensive career development program is available through FVTI. Included is a computerized self-development program. An up-to-date placement service also provides computerized reports of current job listings and available graduates for area business and industry.

- **Research and Library Services** - Computerized, statistical packages are available, as well as access to national data bases. Research networks with area universities will be available. An extensive technical library is available at the technical school.

- **Employee Testing Services** - All the major testing systems are available for business and staff evaluation services. In addition to the usual instruments, customized test packages can be developed upon the request of the tenant.

- **Cooperative Work Experience** - Use of advanced FVTI students and university students in cooperative work arrangements with the TRI-Park tenants will increase the relevance of training programs for all businesses in the Fox Valley and provide additional, inexpensive workers for firms.

BUSINESS AND INDUSTRY TECHNOLOGY CENTER

At the core of the TRI-Park is a Business and Industry Technology Complex which provides available services for inventor-entrepreneurs. Here they can receive assistance in developing their ideas and concepts into a viable product. The building is designed to accommodate the needed training services on a flexible

schedule for TRI-Park tenants and community participants. The school will enhance its efforts to work directly with business, industry, and agencies to identify the participants' needs and meet those needs through customized training and technical assistance programs. A communications network will be established to assist with the coordination of community resources and to provide direct assistance as needed. This will provide the targeted group with access to local expertise in order to foster new business development.

Included in the building are the following functional areas to assist tenants of TRI-Park and others from the region who desire to take advantage of the services available:

- **Technical Resource Area:**

  The area is designed to provide technical resources to assist area business personnel, journeymen and others who conduct research and development functions related to their specific business. Computer technology will allow for immediate access to research and other capabilities of the universities of the area and the state. It is envisioned that this center will access the research capability of UW-Madison, UW-Oshkosh, UW Center-Fox Valley, the Institute of Paper Chemistry, Lawrence University, and major data bases around the country. Included is a computer software analysis center for business and industry, and computer-generated technical information.

  This customized network is designed to place inventors and entrepreneurs in contact with one another and other community resources. These resources will provide direct assistance in doing feasibility studies and marketing plans, setting up accounting systems, obtaining permits and patents, designing contracts, and providing other kinds of information. This network includes the Service Corps of Retired Executives (SCORE), area Chambers of Commerce, the Wisconsin Association of Manufacturers and Commerce, and the resources of the Wisconsin Department of Development. In addition, the Small Business Development Centers operated by the University of Wisconsin System would be included, along with various experts from the staff of Fox Valley Technical Institute and other agencies.

  Also found in the Technical Resource area is a Library and Information System to assist businesses and participating associations who wish to gather, select and research materials. Available in the library would be traditional materials such as books and magazines and technical journals. At the same time, computerized resource networks would be identified and made accessible.

- **The Professional/Trade Association Center:**

  This section of the High Technology Economic Development Complex focuses on meeting the needs for upgrading and retraining of various professional and trade association members. This center will provide specialized training

COPY AVAILABLE

and services for each association on a local, regional, or in some cases, national or international basis. Facilities would be available for regular seminars, product and process demonstrations, trades shows, and professional roundtables. Some regional offices will be physically located in the center making possible a number of support services to be provided through the Fox Valley Technical Institute.

- **Telecommunications Center:**

Teleconferences--electronic meetings--are in the forefront of today's new communications trends. They represent important techniques of the information age and the communications revolution made possible by computer and satellite technologies. This center will become the state-of-the-art electronic hub of the high technology facility. It will allow for two-way communications of data, audio and video, with access to data bases necessary to service the tenants of the TRI-Park and the businesses of the region. Downlink and uplink capabilities will be controlled through this area to permit origination and reception of specialized programs for business and industry on a national and worldwide scale via satellite communication.

- **Conference Center:**

This center is designed with unique rooms separated by expanding walls for maximum flexibility. Outside access will be provided with adequate door sizes for moving large equipment for demonstrations. Highly aesthetic in design, decor and furniture, this Center will provide an ideal environment for community business activities and conferences, and will be the center stage for the entire technology facility. As FVTI's theater for presenting state-of-the-art technology to business and industry, the center will host large seminars, small group meetings, customized training sessions, and satellite conferences.

- **Product Development Service Area:**

The Product Development Service Center is an area where inventors and entrepreneurs will have opportunity to do basic research on potential products. It will also be available to area businesses for off-site testing of new products or equipment. This testing might be done by student interns, instructors and/or business personnel. In this research and development setting, engineers, technicians, interns from universities and student technicians from Fox Valley Technical Institute will work together on research projects. A particular focus will be on productivity and efficiency to enhance the local economy. The Product Development Service Center will become the major link to incubator centers which are located throughout the region. Industries which locate in the incubators will utilize the services of the Product Development Service Center prior to and during the incubation period.

- **High Technology Demonstration Area:**

  The High Technology Demonstration Center is designed to provide a facility capable of hosting new technology equipment, related demonstrations, and short-term training activities. Its design and construction will allow maximum flexibility for use by a variety of organizations in need of a suitable location and environment to conduct equipment-related group seminars and demonstration activities.

  The lab serves as a focal point for a wide variety of "state-of-the-art" technology and is a significant link in generating collaborative activities between area business and industry and Fox Valley Technical Institute.

GOVERNANCE AND FUNDING OF THE TRI-PARK

The Fox Valley TRI-Park is a cooperative venture of the school, the Chamber of Commerce, the County, and other area agencies. The land for TRI-Park is partially owned by FVTI and Outagamie County. There are three parcels, two totaling 260 acres owned by the County and one of 60 acres owned by FVTI.

A non-profit organization has been developed to market and manage the TRI-Park. This organization will operate under a strict code of covenants which clearly define operational guidelines, architectural restrictions, and cooperative educational programs. The majority control on the Executive Board lies with the College, the Chamber and the County.

Funding for the TRI-Park is coming from five major sources. The County Board is donating land for TRI-Park and is also bonding for funds to be used for developing the property. As parcels are sold to tenants, these funds will be returned to the County. The County is also providing funds for the High Technology Building. These funds will be returned to the County as the FVTI parcels are sold.

The Economic Development Administration (EDA) has provided a grant of $770,000 to assist in the construction of the High Technology Building. Future funding is being projected for the construction of an incubator mall and for the possible construction of a business which will be operated by and used as a training site for handicapped and disadvantaged persons. Additional funds will also be solicited to assist in further development of the property.

The State Board of Vocational, Technical and Adult Education provided an initial research and development grant of $20,000 to conduct the research and design the plan for TRI-Park. In addition, the State Board has contributed $175,000 to assist in the construction of the High Technology Building.

Fox Valley Technical Institute is providing $500,000 of District funds for the construction of the High Technology Building. An additional $800,000 is being used to provide high technology equipment for the laboratories in the new

complex. The Institute will also include its 60 acres of property in the land bank which will be under the control of the TRI-Park corporation.

The final sources of funding include business and industry and individuals in the community. In particular, donations in the form of instructional equipment will be used to help equip the laboratories of the High Technology facility. The funds from sales of property to TRI-Park tenants will be used to further develop and market TRI-Park.

N084F85

BEST COPY AVAILABLE

Senator KASTEN. Mr. Gentz, thank you. Let me just say for the purposes of the audience and others, the entire prepared statement of each of the witnesses will appear in the record as if read. We have asked the witnesses to summarize their statements, but the entire statement will appear in the record as if read.

In addition to that, we are going to be keep compiling a record. The record for this testimony will remain open—for this hearing will remain open for 10 days, during which time people may submit additional questions. We will submit those questions to the witnesses and they will reply back to the committee. We will make a complete record of the entire series of hearings that we're having, and that will be available through the Senate Small Business Committee and the U.S. Senate.

[Subsequent information was received and follows:]

BEST COPY AVAILABLE

(Questions from Senator Kasten for Merlin Gentz)

MR. KASTEN: You certainly have a very ambitious program at FVTI. Your program demonstrates the increased role that technical institutions are playing in economic development. What is the placement rate of your business-oriented students?

MR. GENTZ: In regard to your question relative to the placement rate of our business-oriented students here at Fox Valley Technical Institute, let me relate to you that, based on our six-month follow up of our graduates, 84% of them were employed in an occupation related to their training.

MR. KASTEN: Across the board, Wisconsin has some of the nation's finest educational facilities, whether they be part of the U.W. system, private colleges, or vocational-technical schools. Even though we enjoy this advantage -- ACT and SAT scores even suggest that this state's students are among America's best educated -- recent reports have shown that Wisconsin suffers from a "brain drain." That is, due to lack of employment opportunities in Wisconsin, our well-trained students are moving out of the state. Does this trend exist in the Fox Valley, and do you see an end of this situation in sight for the state in the near future? What can we do to curtail the "brain drain?"

MR. GENTZ: Let me indicate to you that our research shows that 79% of the graduates of Fox Valley Technical Institute programs stay in our five-county district. Therefore, I would have to say that the "brain drain" phenomena does not exist insofar as FVTI graduates are concerned in this part of Wisconsin. I believe it is critical that educational organizations such as our Fox Valley Technical Institute assist in holding businesses and industries already here by offering customized training for new hirees and for upgrading the skills of existing employees. Additionally, the capabilities of Fox Valley Technical Institute must be stressed as economic development teams present to companies contemplating relocation to Wisconsin. Also, we need to continually stress the distinct advantages of living and working in Wisconsin. Some of those advantages are the high standard of living we enjoy, the quality of services offered, the best school systems in the nation, and the high quality of the work force who possess an excellent work ethic.

BEST COPY AVAILABLE

MR. KASTEN: If I, as a small businessman, were interested in developing an incubator project here, who would I contact? How would I get started?

MR. GENTZ: The answer to your last question, pertaining to who might be contacted by a small businessperson interested in developing an incubator project, is Dr. William Ihlenfeldt, Supervisor of our Economic Development Division here at Fox Valley Technical Institute. He can be reached at 414-735-5655 for information on questions regarding the incubator project. An educational organization like Fox Valley Technical Institute is able to offer all the expertise we have available within our staff. Additionally, our Economic Development Division will be able to identify other community resources to assist the individual in getting started.

As I indicated during my testimony, Fox Valley Technical Institute is in the process of building a Technological Innovation Center. One of the areas within that Center, which will be a part of Dr. Ihlenfeldt's Economic Development Division, will be a Resource Library where a small businessperson could determine where to go for help on a variety of subjects. This Resource Center will have hardcopy materials as well as have access to electronic libraries around the country. Hopefully, a small businessperson would find the answers to any question he/she might have relative to getting started in a business.

Further, I might add that through our Technical Assistance efforts here at Fox Valley Technical Institute, we have indeed been able to help individuals who were getting started in a business.

BEST AVAILABLE

Senator KASTEN. Our next witness, the first of our two guest entrepreneurs, is Mr. Dale Smith, who recently started his own small business in operating his own gas station. With the innovation that marks a true entrepreneur, Mr. Smith has already diversified by marketing his own Dale's Original Gas Station Chili. Mr. Smith will share with us his story that has led to his success.

Dale, thank you very much for being with us, and we look forward to your statement.

STATEMENT OF DALE SMITH, DALE'S ORIGINAL GAS STATION CHILI, GREEN BAY, WI

Mr. Smith. Thank you, Mr. Kasten. Just briefly, we took a lot of fun in the back room of a gas station 1 day a week—you've got to eat at lunch, so we had a little fun with it. Three friends grew at one point in time, to 125 people showing up for a surprise birthday party, and the city of Green Bay didn't take kindly to the fact that we didn't have a restaurant permit. And I could understand that. Instead of going out of business, though, it—virtually with the publicity and everything surrounding it—turned into a business that is growing, and in years to come will be, as I see it, on a national basis.

If you don't grow and if you don't have visions, you won't. So I vision it as something that will be very remarkable. I intend to work at it for a few years to come.

That basically amounts to it. I started this gas station which, you know, evolved around the chili. And with advertising mediums, that are various and many, my name has come to be very well known. It's almost, in some instances, seems like almost being a legend, like a professional sports hero.

It's an enjoyable business. You have to work at it, enjoy it. Opportunities are varied and many, and you can take advantage of almost any. And that's basically as I see it; just working hard at it, taking advantage of what's around you when you're doing something, and as a fluke as this chili is, it's going to turn into a very viable business proposition for myself to continue to grow with in the years to come.

Basically I got started by the help of a lot of friends. And in getting started in this, I consider them friends because we've grown into that relationship. Basically I borrowed money from some relatives to get the basis for the start of this business.

In getting started, a gentleman friend of mine, as I was getting done repairing the roof on his house, told me of this service station being for sale. In two days I decided I could do it. I looked at it, looked at the business, what the gentleman in the business himself was doing at this gas station. I've been around automobiles, done the repairs, had some business experiences. That was all it took, 2 days.

I decided I could do the job. I had the imagination and abilities to perceive what was going on around it. I saw a lot of people standing around not doing any work. The business, as the gentleman's health being very poor, was stifling the business. It was actually ruining his business because of his health. He retired, and I'm sorry to say that 10 months to the day that he retired, he did die

of cancer. But watching this, you can grow and learn from it. That's what I've taken from the experience.

I've grown with the help of tax experts, attorneys, acccuntants, financial planners. I've learned that you surround yourself with people that have a great deal of knowledge, not just with one person or an attorney that's all in one and has all the answers. A lot of people with a lot of different views, call it synergistic, can give you a lot of different sides to the answers and questions you have without any bias. They're looking at it from their direction and another one is looking at it from a different direction. For me, that's helped me grow dramatically. And in the future it still has unlimited bounds and questions that I have to have answered.

I started out years before that. My parents were of a very small, meager means. I needed to get out of the house. With eight or nine other brothers and sisters around, it can be very confining. We grew up near the Fox River. I met some of the people that my father had grown up with, and in time acquired a job helping commercial fishermen getting carp out in the bay. This is when we supposedly had the real bad water. As it were, I'm still walking around. I guess it wasn't too bad.

I also learned from the gentleman next door to this fishing business. He had trucks that had to get to the marketplace to haul these fish there. I had another part-time job helping him. It was just work, but it was also fun for me. I used it as an experience, it was just a reason to get out of the house. But I gained more and more from it than was ever imagined.

The gentleman that owned the trucking company had a son that had a house moving business. The guy paid me a buck an hour to help drive his trucks, drive bugs, forklift trucks, semi trucks. At 16 years old, that's quite an experience. Getting paid to learn and have fun, as I call it, you can't beat it.

I've done everything from pig farming to cleaning boilers. And in any one of these cases, any of these jobs, I've taken that experience, I've done a better job and a cleaner job faster. And for myself, I gained more out of it than the employer did. I didn't do it for me alone. I did it for the employer because it was his job. His asking me to do a job, he'd tell me to do it a way. I can take that job, virtually any job, do it in a better, more fashionable manner, and in turn I learn from it, he gets a better job, it's done in more time which saves everybody money, which is the name of the game. And supposedly you should get advance for that, and in some instances I didn't see it that way. I saw it as a stifling manner in various Government or city type jobs.

I like to be a perfectionist about it, neat and clean. I can walk into my own service station and do a varied number of jobs, including oil changes, virtually in the clothes I'm wearing today and not get dirty. Why not? Why do you have to get dirty when you do a job?

You take all these insights, methods, knowledges and continually grow with them. And as you get into other businesses and grow, they do nothing but help you. I like to work. That's all there is to it. I enjoy working. When I work, I run. I run all my service station. Most people when they're at work--I watched other people there this morning. They kind of, uh, they do their job. Maybe they

BEST COPY AVAILABLE

don't enjoy it, I don't know. I do. You have to put something into what you're doing to get it out. And you take any of these opportunities and do tenfold of what you really thought you saw. And if you're looking at what you're doing, there are so many opportunities around you that you couldn't even imagine.

You have to reap these rewards. Put them back in the memory bank and continually draw from them as you need them. In the future there are unlimited ideas that I can put to use, not only in the service station, but as I grow into this new chili business there are things I've learned that I can't use right now. They're stored away and I remember them. I use them sometimes in the service station when they come up. But they're also put away for future references.

I bought the service station, as I say, on a land contract and some borrowed money. The gentleman that owned it did about $200,000 his last year of business. That was quite a great deal of money in my eyes. So after purchasing it, as I say, I decided I could do a better job of it. I did in 2 years of business.

I had to realize that the bridge in front of this place of business and the highway would be closed for another 21 months for reconstruction and repaving. The bridge still isn't open. As of last year I dropped 51 percent of my business, I lost 69 percent of that which was my gas business. So, I lost a great deal. It gives me time to regroup and regrow. I've put the business back up to where it should be. It's growing again. It hasn't been stifled by a great loss. You can take bad from good and turn it around and get something good out of it.

The chili business is in that same manner. You take that good and it's growing. I have now a location down there in Appleton, five or six up in Green Bay, that continually grow and grow. The chili business out of a back room of a gas station just has no relationship to anything. It's just a little bit of fun, and it's also a profitable business. Instead of letting it go away and die, I took advantage of that situation by a customer walking in and asking me if he could serve my chili in his restaurant. Well, you have the makings of another McDonalds started. Take advantage of it and use it.

There has got to be hundreds, if not thousands of these stories going around this country at any one point in time. As Mr. Parker has stated, there's a lot of entrepreneurs who don't realize that you have to grow and mature, and realize it as it comes to you.

The biggest thing I've seen, as I say, is the media; radio, TV, newspapers, what have you. Advertising now a days is the name of the game. I've grown and learned. Two years ago I wrote somewhere near about 100 radio commercials. I developed to the greatest extent the idea for my own TV commercial. It's an enjoyment. It's fun to do these things.

You know, you listen to these radio commercials or see them on TV and have no imagination, or no idea of how they are put together. There's nothing to it. It's simple. You take your imagination and you put it to work. It's the best thing to have.

The bottom line basically, as I see it, is start at the bottom, do better than the next guy. I say learn advertising and profit. That's what advertising is about. You have to profit from it. And I look

61-535 0 - 86 - 4

back and I know I did a job as good as, if not better, than the next guy.

Thank you.

[The prepared statement of Mr. Smith follows:]

BEST COPY AVAILABLE

February 6, 1986

Committee on Small Business
United States Senate
Room 428A
Russell Senate Office Building
Washington, D.C. 20510

Attention: Ms. Tracy Crowley
Hearing Clerk

Ladies and Gentlemen, Members of the United States Senate and Sub-Committee on Entrepreneurship:

Good morning and thank you for the opportunity to appear before you.

How did I get started? By wanting to work; to get out of the house. I wanted to make a little money. I soon found a couple of jobs that were strictly "hand manual labor"--one working for a commercial fisherman--the other, helping fix the trucks at another company that hauled fish to market. The owner of the truck had a son in the house moving business. Can you actually believe a business would pay me $1.00 an hour to drive forklift trucks, dump trucks, semi-trucks, and wreckers. I learned to run equipment, had great fun, and got paid for it!

I've done everything from pig farming, to cleaning boilers, blasting with dynamite, plumbing, and buildings and lawn cleanup. I've taken dirty jobs and made them neat, clean, and done, in some instances, in half the time others would have taken. I have taken on the spirit that I am going to do the job in the cleanest and neatest way, first, FOR ME and, secondly, for the boss or customer as may be the case. They have got the best, most perfectionist job possible in record time. However, from this I gained knowledge, insight, and methods (or whatever you want to call it) that they never realized.

When a boss or elder gives me a job, I take it, analyze the job, and look for the easiest way to do it. If I was told to do the job in a particular way, instead of TELLING the boss I was going to do it another way, I would present the answer in "question form" that would include simpler methods to produce quicker results.

500 W. Walnut • Green Bay, WI 54303 • (414) 435-4270

I've worked hard at getting where I am! I've built better mousetraps. I now do work for over 50% of the people I had previously worked for or with. I have always had the assurance of knowing that the work I've done would follow me through my life.

My first big start was in Dale's Super Station which I purchased through a land contract along with the help of relatives, accountants, attorneys, and financial planners. In his last year of business, the previous retired owner had grossed $220,000.00. As I looked at purchasing this business, I decided that I could do as good a job as the previous owner and come out all right. I would have been better off if it wouldn't have been for the fact that two years after I was to be in business, the road in front and the bridge two blocks away would be closed for reconstruction. I had a challenge on my hands!

Going into my first week in business, I made a pact with two other friends. "What say, we get together for a bowl of soup in the crockpot." Bells ring! "Better yet, HOT CHILI." We now have the basis for Dale's Original Gas Station Chili. On the second Wednesday, Chili Day, one of the original three asked to invite a couple of friends. And thus it grew and grew. On one occasion, a certain Green Bay Press Gazette reporter got on invitation and wrote a follow-up story about a group of chili fanatics eating lunch over the floor hoists in a gas station.

About nine months later someone decided they should throw a surprise birthday party at the same time that a Press Gazette reporter wanted to do a photo essay on our place of business. Now I have to admit, I can understand how and why the City of Green Bay would think we were operating a restaurant without the proper permit. What would you think if you saw over 125 people eating chili over grease racks in a gas station! We were formally cited at least two more times for servicing without the proper permits.

Now we're talking winter in Wisconsin. The Packers have long gone home and there is nothing to write about. Not even the weather was as bad as this gas station. For months to come I gave interviews for TV, radio, and newspapers, from Green Bay to Channel 6 in Milwaukee, and more. Color front page pictures appeared not only in the Green Bay Press Gazette, but in the Milwaukee Sentinel as well. This event immediately turned the gas station into the "Super Station" doing nearly one million dollars in business in three short years.

The chili did not go away at the height of the controversy. I did consider opening or adding on a chili restaurant. One day an acquaintance of a customer of mine came in and asked to serve Dale's Chili in his place of business. This started to sound like the McDonald's story, and I decided, why not! In experimenting in the backroom, I had developed a better product than was available on the market. My father helped to develop this as well. I decided to sell the spice to the businesses that would sell my product. These businesses had their own ideas and thus made the product inconsistent. I then searched for a possible spice company and meat plant. Finally, Thomson's Meats in DePere, Wisconsin decided to produce the product for me. I now have a concise product.

As I viewed the future, I knew I would have to consider government controls. Therefore, I decided I would go for F.D.A. Approval, as is common to the meat plants. The inspectors were more than helpful. Including mailing time, I received approval in ten days.

I have been involved in politics since I was in the 8th grade due to a fabulous social science teacher. She was also able to spark a cooking talent into the whole class.

Life is an ongoing education. I try to learn or understand as much as possible every day and retain this knowledge. If I work harder, longer hours and talk business every waking hour of the day, I can expand my horizons. I try to put fun into everything I do until I see fit to move into a new challenge. In approxmiately two years I plan to sell the Super Station and at that time promote my chili as a prominent national product that is available in the market place.

Start at the bottom.
Do it better than the next guy.
Learn advertising and profit.
Look back and know that you did it better than the next person.

Sincerely,

Dale L Smith

Dale Smith
Owner

DS:llk

Senator KASTEN. Dale, we thank you. Our next witness is also an entrepreneur, our second entrepreneur on the panel today, a person who is regarded as a leader of the Fox Valley community through his business operation. He's president and the chief executive officer of Bergstrom Enterprises, John Bergstrom. He will discuss how he got his start and how his business has grown.

STATEMENT OF JOHN F. BERGSTROM, PRESIDENT AND CEO, BERGSTROM ENTERPRISE, INC.

Mr. BERGSTROM. Thank you, Bob. I was hoping Dale would bring some of his product this morning. It's a pleasure being here this morning. I have to say that 16 years ago I sat in a similar chair in a similar auditorium, so I can appreciate the sequence and positioning that we both have. You have to stay here and watch and I have to sit up here and supposedly do my job.

The last time I was at Fox Valley Tech, the Arabs cut back the oil and raised the price. And our Federal administration cut the speed limit from 65 to 55, and I had a hard time acknowledging the fact that they were the leaders. I came here and was rearranged in my driving habits, and since then I've done a much better job at going 55.

I started 16 small businesses in the last 14 years, and 8 of them have gone wrong side. I had a very difficult first employer. I worked for him 6 years and was fired three times. I decided that wasn't exactly the way I was going to be entertained as I went through life. I also had a situation where I worked on commission. The income that I had was first thirded by the Federal Government and then halved by my wife. And I was not in a position where I ever was going to get to a substantial amount of money where I could start a business of any consequence.

My brother Dick and I were both in a similar situation. Between us we had $8,000. We bought an old Government post office building in Neenah and started a bar. I've never had a drink in my life. It was an interesting situation. But much like Dale's situation, we had a group of friends that enjoyed being together. Our business worked rather well.

Unlike Dale's situation, we decided to go in the food business and that—with beans. So we had one winner and one loser. We started a place called Fire Alarm in Appleton and were instantly successful not because we knew what we were doing, but apparently we found a void in the marketplace.

With the two bar/discotheque operations, we had amassed a certain amount of attention from the financial institutions in that we needed money to grow and it was difficult to borrow money to build a bar. It was also difficult to convince them that in the long run we had a foundation that would warrant lending us more money as we wanted to grow.

The Valley Inn Hotel in Neenah was in the throes of a bankruptcy and receivership situation. We sold the post office and the Fire Alarm to get the money for the downpayment. It's much easier to buy a business when the people that are selling it are throwing up in the wastebaskets all over in the bank. All of a sudden we were creditworthy.

At that point I wasn't sharp enough to call the SBA. If I were in that position today I think I'd do that, because it is difficult starting a small business with small cash. We used much the same philosophy that Dale did. You have to take good care of people, you have to work, you have to service people, and there's no secret. There's no way that we did it better than anyone else could do it. That opportunity is there for all of us.

I currently speak at both Marquette University and the University of Wisconsin at Madison in a series. It's a group of friends calling—if you want the truth, they've helped me at one time and then they call you back and say guess what you're going to do next semester. I say gee, it's nice to talk to you, you have the wrong number, and they call you back. But I enjoy talking with students.

I was in a position where I had a father that worked very hard, but always worked for someone else. He was always in a position where he was under the gun of his employer. And I had made a mental note that was very much engrained in my mind that I wanted to be my own boss no matter what I did.

Both Dale and I have similar situations. I've run a bait shop where you sell minnows. I had an ice cream store that wasn't successful. I've been involved in a series of both barber shops and drive-in banks where you build the building and lease it back to someone else. It takes very little money to get started; but, on the other hand, the chance of return is limited and it's a very competitive position.

So, when we had the chance to go into our own business, we really made a full force effort that we were going to commit 100 percent and make this work, because there wasn't another opportunity for us. We had given up our other ties. We fell back on friends to be our customers and also our helpers. They are the people that will coach you as to doing right or wrong. They're also the people that will pitch in and give you a hand when you need it and you don't have a checkbook to support it. Many of these people still work with Dick and I.

We have 800 employees today. We run eight businesses, two of which are in Appleton. We run Stromberg Chevrolet-Cadillac, and we own and operate the Paper Valley Hotel and Convention Center. Now, our other six businesses are all within the Fox Valley—563 of our 800-plus-or-minus employees are paid a commission.

What I did was I tried to find a way where they could be involved in the profits of the business where their efforts themselves were rewarded. That was the one alternative I saw to running our own business.

In speaking in Madison, I frequently have a young, brilliant person stand up and say the days of opportunity are over. I'm sure that his IQ is of the level where I wish that I could compare. I'm sure that he's probably had a much better opportunity for himself to make a balance sheet or a financial plan, but he's missed the main ingredient. There is this opportunity here. If you're willing to try it, and granted you can't start at the top, and granted there's a lot of days you wonder why in the world you took the chance, but that opportunity is there.

I do not know a person that wants a job that can't find a job in the Fox Valley. When I get outside of the Fox Valley and make that statement I have many people, especially in my General Motors relationships, that look at me like I'm some kind of a crazo. But I'm very sincere in that. I don't know a person in the Fox Valley that wants a job that can't have a job.

I'm also in a position that if I ever get stabilized to the point that I don't have nine banks and two insurance companies checking my pulse, that I would like to really make an all-out effort, as my small contribution to our system, to try and profess and get other people to hear the fact that unless they're either physically or mentally handicapped, I don't think the Government has a position of paying people not to work.

I would not like to go some of the paths that people have preceded me have gone in this avenue. And I'm probably having Bob getting ready to cut my wire. But I really believe this sincerely. I think the opportunity is there and the strength of the system is there. I think that small business and large business are very willing to do their part to participate.

But when we look at the tax burden that we, in a medium-size business, now have, it's terribly difficult to take the chunk that goes to people that really don't have any direction. And we're furthering this mess by continuing to raise children in a community where they don't see their parents going to work.

I don't think that in the long run we can continue on that base. I very much appreciate what the Federal Government and the State government has done to assist us. They have looked into a small business for the first amount of profit that you make—taxes are very lenient. I didn't think so at the time, but they are—compared to the taxes you pay as you grow.

You also find a certain atmosphere, at least in our State government, that says we in Wisconsin are proud of Wisconsin and we will help you, and they do help you. I'm certainly not a strong advocate of Mr. Earl's administration in some of his areas. But I am very proud of what the State represents, both for what they do for business and what they do in preparing young people to go into business. As a whole we do very well.

I continually spread the story of Wisconsin saying here is a community where people will pay their bills, people will come to work, people do give you a day's work for the money that they earn. So much of what we have is a value we don't appreciate because our horizons are limited to the 20 miles that we work in day in and day out.

Our small business now represents a semi-major part of the business community in the Fox Valley. We represent people that sit on each civic chamber of commerce in the valley. We represent a company that has personnel that sit on the five city governments that we currently are working in. We do try to do our part, but we have no magic. We're doing the same thing that every other small business does. We've got to be careful on the first of the month when our bills come up, we've got to be careful borrowing money, and the people that we have that work for us have to have direction and some kind of discipline.

But we're all working, trying to succeed, trying to be proud of what we do, trying to continue a path of growth so that we also can have some of the benefits that people that have gone into private business in the past have had.

The Government just literally represents the society that we are. And we must continue to create the environment that gives everyone a chance to go to work. And if there isn't a motion or some kind of a statement that I could make, I think that's the direction I would like to see; Bob and the Federal people working at the SBA continue to go. I think you've done it well in the past, and I think we should continue on that note.

Thank you very much.

[The prepared statement of Mr. Bergstrom follows:]

BEST COPY AVAILABLE

February 13, 1986

JOHN F. BERGSTROM PRESIDENT, BERGSTROM ENTERPRISES, INC.

SPEAKING TO

SENATE SMALL BUSINESS COMMITTEE'S
SUBCOMMITTEE OF ENTREPRENEURSHIP

I. Introduction: Bergstrom Enterprises was incorporated in 1974. The corporation started with twelve (12) employees and currently employs eight hundred (800). The corporation has been involved in the operation and ownership of bars, gas stations, hotels, car dealerships, a bait shop, an ice cream stand, a drive-in bank, barber shops, restaurants, a golf course, dental offices, a leasing company, and a marina. The primary reason for starting the business was an opportunity for Richard A. Bergstrom and John F. Bergstrom to become owners of their own business and the benefits that come with hard work and successful management, for themselves and the families of their fellow workers.

II. Past: The Government has provided us the tools to help a small business get started.

a) Low tax levels for small profits made at beginning of business life.

b) Co-op programs - vocational training.

c) Interest deductions.

d) Industrial revenue bonds.

e) TIF districts - Tax incremental financing districts.

III. Present: Currently the government is helping our business by working towards:

a) Economic stabilization - world balance of trade in products.

b) Holding the line on the tax bite share.

c) Holding inflation down.

d) Elimination of unnecessary artificial deterents to the free enterprise system.

VI. Future: In the future I would like to see the government help business by:

a) Working towards balanced spending on the part of all government.

b) Continuing to further rewards for providing employment opportunities.

c) Gathering and distributing information to provide business facts and experiences.

d) Stronger primary and secondary educational systems.

e) Providing stronger job training at vocational level for skilled trades.

V. Summary: The government should work towards providing an environment that provides for:

a) The opportunity for profit.

b) The opportunity for private employment.

c) The opportunity to pass on the fruits of one's labors to his heirs.

d) The opportunity for the handicapped both mentally and physically to live a respectable life, and force everyone else to work if they want to get paid.

BEST COPY AVAILABLE

Senator KASTEN. John, thank you. Dale, the day before yesterday I had a hearing, and the examples were Hibernia Beer, the people that had just bought Walter's Brewery, and also the people that began Tombstone Pizza. And at Tombstone Pizza, the person said he didn't have any trouble at all until he started selling his pizza. They were giving it away at the bar for a while and they weren't sure. We heard, in other words, that there wasn't a problem until they stopped giving it away for free. The first real test came when the product was being sold.

Can you describe the initial reaction you received when you actually started marketing your chili?

Mr. SMITH. The response was very good, actually. We never really gave it away other than at the home Packer games in a little 4-ounce plastic cup, which the city did allow us a small license of some sort to do. But the market has been very favorable. The locations, I think, are learning in their own opportunistic values that when they do put up a name, which is a draw card under any call letter, that they are drawing off of a name that I've developed, a logo that's been developed, and a customer sees it and their sales grow.

One of the locations that is serving my chili took the name down for a while and the sales went down. He put the name back up, I see the immediate reaction to the marketplace.

Senator KASTEN. You, in your testimony, noted that you received FDA approval within 10 days of applying for it. Have you had any other experiences, either good or bad, with the Government in relationship to your business development or any help or work with the SBA?

Mr. SMITH. I haven't worked with the SBA at all. It's an experience in a field that I feel that I will be experiencing in the years to come. As far as the Federal Government goes, it's been very good. I surpassed city and State for reasons I guess that I didn't feel comfortable with them. Within the city I saw a lot of politics and bad feelings from what the city had been put through over such a small, little deal.

I went right through the Federal Government due to the meatpacking plant that makes my product. It is FDA approved. He has Federal inspectors on the job all day long. We asked questions, questions, questions. They told us how to make the label, what had to be on it, and it basically amounts to percentages of what's in the product. You have to have a certain amount of meat in the chili to call it chili.

We went through all the motions, which were virtually nill. We asked just a few questions, got the right answers, reapplied within this meatpacking plant, showed the inspectors the labeling. They more or less semiapproved to a certain degree. There's just a basic form that you have to follow.

It was sent out of their office, and within 10 days it was back in Green Bay, approved. I don't think you can do any better than that. I've heard the usual horror stories as everybody has. Maybe most of them are, and maybe these people should start really using common sense and following through with what really needs to be done. You don't have to buck the system, you can—not necessarily

go around it, but you can work with it and get it done right away. You don't have to have the hassles that you hear of.

Senator KASTEN. One last question. You mentioned all the free publicity you received when the press initially discovered what was happening at your filling station, at the Super station. How are you advertising now? You mentioned how important you felt advertising was, and you made one reference to your television and radio act.

What kind of marketing strategy do you have, and what are your plans for the future?

Mr. SMITH. Basically in the service station I worked and developed a—I guess you'd call it a semi-high-tech look television commercial. It's a starburst, a bit of orange with a star field coming through it. Chrysler Corp. has been big on it and a lot of major corporations are. For my usage I decided that it would be a good tool. The sound tracking, I picked music for it that would be an attention getter. You hear a commercial come on the TV and some you turn off. I wanted one that would just draw somebody's attention just by the music first and then the visual because they're looking at it to see what's going on.

In the commercial I've developed basically specials with a brake job, tuneup, and oil change area. And it leaves time for a few other flash items to be mentioned. It's a bold, flashing spot that catches and retains the customer, which is what I wanted out of it.

I use radio a little and less than I used to. Basically I use one of my morning papers in my area. The basic response is via my telephone. If my telephone doesn't ring, I don't have a busy day. When the phone jumps off the hook all day long, you know that you got the response that you asked for.

Senator KASTEN. Thank you. John, you said there—frankly, I was amazed—that in 12 years, 12 short years, from 1974 to the present, you went from employing 12 people to roughly 800 people.

Why do you think that you were able to grow so rapidly during a time, late seventies, even part of the early eighties, when so many people in businesses were cutting back, when a lot of people were gloomy about the overall economic situation, when even some companies were folding?

What was it that you were doing different that made you go contrary to the overall cycle?

Mr. BERGSTROM. The opportunity to grow in our business was absolutely the result of just what you're talking about. Business had been difficult. The type of business we wanted to get into was in financial difficulty, and it gave us the opportunity to run a leaner business, but in the structure that had been previously set up in a nonprofitable manner.

We were able to buy businesses that had not been successful, and had been able to borrow money, incur that, assume responsibilities in a much easier atmosphere than if things were booming and people were much more careful.

Senator KASTEN. You made some reference to the Appleton area and the Fox River Valley. This area isn't considered small, but on the other hand it certainly isn't a giant metropolitan area like Los Angeles, Chicago, New York, Atlanta, whatever.

BEST COPY AVAILABLE

Comparatively speaking, do you think it's easier to start a small business in an area like Appleton or a medium-sized community, such as many in Wisconsin, or do you think it's easier to start a small business in a larger metropolitan area like Los Angeles or Chicago?

Mr. BERGSTROM. I'm certainly not an authority on that subject. I would say it's much easier to start a business where you have a capable integrity, loyal type work force. And this type of a community certainly has that, and I think it comes with size.

If you have a small size, I think that the work ethic, maybe the family mold, are much stronger than if you were in Chicago or Los Angeles. But that's strictly an off-the-cuff appraisal.

Senator KASTEN. It was interesting Tuesday that Tombstone Pizza beginning in Medford, WI, and is now a national company. And I think we're seeing that maybe it is the work ethic. I'm not sure, but there seems to be a greater or at least a terrific opportunity in small- and medium-sized communities.

I don't know, Marshall. Do you have any comments on that question? Do you have any sense from the Small Business Administration of what kinds of opportunities are in larger cities or smaller cities, or is it just simply the opportunities are there if people take advantage of them?

Mr. PARKER. I think that these two gentlemen have really laid it on the line as far as what we've been able to determine are the reasons for success. One is you have to have a viable market, one that's relative to the needs of the people; a quality product and a lot of hard work, and then the followup to do it. It's certain that the work ethic is bound to play a great deal.

I feel almost, Senator, like a déjà vu, if you will. I started a business myself back 30 some years ago, and owned and operated a small milk processing plant for 30 years. I remember when I started at Clemson University from South Carolina—you can tell I'm not from Boston—and they said you just can't do it, there's no place for a small firm these days in processing milk and distributing it. And I said well, we've got that out of the way, will you help me, assist me with the knowledge of how to run it when I do start it. So I feel a very close kinship.

But to answer your question, I think the opportunity is in anyplace. Primarily in growth areas, but if you've got what these two gentlemen have, then you're going to make it.

Senator KASTEN. I'd like to thank our witnesses here today, and thank all of you for joining us. As I mentioned earlier, the testimony for this hearing will be made available. Those of you who are interested in summaries of the testimony of the witnesses today can find that testimony on the front table, right at the stage.

This is the second in a series of four hearings that we have scheduled at this time, and it's our intention to continue on to another series of hearings after we complete this series of three in Wisconsin and one in Washington, DC. The hearing record will remain open for 10 days, during which time witnesses may be asked additional questions, and they would reply back to the committee in order for us to publish their answers to our questions.

I'd like to thank our host, the Fox Valley Technical Institute, very much for your help today. And I want to once more thank all

of the witnesses for your participation. I hope that we have been able to demonstrate that entrepreneurship is alive and well in Wisconsin, and there are many, many opportunities with the help of the Small Business Administration, educational institutions such as we have here today, and leadership, such as Mr. Smith and Mr. Bergstrom have exemplified.

The hearing is recessed.

[Whereupon, at 9:45 a.m., the hearing recessed to reconvene subject to the call of the Chair.]

BEST COPY AVAILABLE

THE ENTREPRENEURIAL SPIRIT IN AMERICA

THURSDAY, FEBRUARY 13, 1986

U.S. SENATE,
SUBCOMMITTEE ON ENTREPRENEURSHIP AND
SPECIAL PROBLEMS FACING SMALL BUSINESS,
COMMITTEE ON SMALL BUSINESS,
Milwaukee, WI.

The subcommittee met, pursuant to notice, at 3:40 p.m., in the multipurpose room, Carolyn Hall, Mount Mary College, Hon. Bob Kasten (chairman of the subcommittee), presiding.

STATEMENT OF HON. BOB KASTEN, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KASTEN. The subcommittee will come to order. This is a subcommittee meeting of the Subcommittee on Small Business, the special Committee on Entrepreneurship and special problems facing small business. The hearings are a series of hearings entitled, "The Entrepreneurial Spirit in America Today."

Our hearings are part of a schedule of three different field hearings in Wisconsin, and then we're going to have at least one hearing in Washington, DC, and then possibly start one more cycle. We had a hearing at UW-Stout a couple of days ago, at the Fox Valley Technical Institute today, and now here at Mount Mary. So, first of all, we thank our hosts and others here at Mount Mary who have been helpful in arranging this hearing.

As chairman of the Senate Small Business Entrepreneurship Subcommittee, I am pleased to be here to discuss the subject of entrepreneurship in America. The term, "entrepreneur" has become a buzzword in the past few years describing the modern day Horatio Alger stories; the men and women who have started with nothing but ideas, and who built those ideas into incredible personal successes.

What is an entrepreneur? The dictionary says an entrepreneur is the organizer of an economic venture, one who organizes, owns, manages, and assumes the risks of a business. And, as I'm sure we'll find out here today, an entrepreneur is all of that and more.

The creation of new independent businesses by our entrepreneurs is an important American resource. We can add to Webster's definition by pointing out that the variety of today's entrepreneurs create new jobs, provide new competition to existing businesses, help to improve product quality, help to reduce prices, add new goods and services never before thought of, advance new technologies, broaden our economic and leadership base, and further advance America's competitive stance.

I think it should be pointed out that not every budding entrepreneur is going to be a success, even though entrepreneurship is strongly identified with America's success. In fact, more than half of the new starts in business fail within the first 5 years of operation. Of those, roughly 90 percent are due to the lack of managerial and technical experience or the underestimation of capital needed to be successful. So, although it takes more than an innovative idea to be a successful entrepreneur, you can take heart in knowing some of history's biggest successes have also experienced failure.

Many of those who we think as being most successful, in fact some of the most innovative in history, have also faced a great deal of difficulty in getting their ideas off the ground. Do you have any idea, for example, how many Cokes were sold by the Coca-Cola Co. in its first year of business? Maybe a million? Maybe 2 million? Those figures aren't even close. In Coke's first year, they sold 400 bottles of Coca-Cola.

Or, Henry Ford. The first year he was in the automobile business he went bankrupt. Two years later his second company also failed. But through his tenacity the third corporation, today's Ford Motor Co., has been successful.

Around the country Macy's is thought to be one of the country's premier department stores. R.H. Macy went broke with his first three dry good stores, but he kept at it. Had it not been for this breed of risktakers, it would be hard to imagine where we would be today. In fact, somewhere along the line, with every business you see today, a risk of some sort was involved; whether it was introducing a new product, expanding into a new arena, or creating a new service that no one thought possible.

I might say parenthetically that today we had two entrepreneurs in the Fox River Valley; John Bergstrom, who began with a series of hotels, one of which had gone bankrupt before he bought it, and now he's increasing his business. We have with us today another person who has been working as an entrepreneur in hotel areas.

We had also, with Mr. Bergstrom, a person named Dale Smith who is beginning Dale's Original Gas Station Chili in Green Bay. He is running a gas station. He began making chili for friends and neighbors, and he now is marketing that chili which he was making in the back of his gas station. So now he's running a gas station and also beginning to market chili in the Fox River Valley.

You think of that as a funny story, but 2 days ago, in UW-Stout, one of the people testifying before us was Ron Simek, and Ron is one of the founders of the Tombstone Pizza Co. Tombstone Pizza was begun in the back room of the Tombstone Tap in Medford, WI, where they were making pizza. And one of the things we might talk to some of our entrepreneurs here today about is what Ron said yesterday; we were making the pizza and people were eating it like crazy because we were serving it with the beer at our bar. But the key day was the 4th of July, some day in the 1960's, when he finally decided if people would really like it, he asked them to pay for it. Up until that time, they were giving the pizza away for free.

So, we're talking about a whole breed of risktakers. And it would be hard to imagine where we would be today in America if somewhere along the line every business we see recognized that we had

a risk, they went forward, in many cases creating a new service or a new product or an expansion into an area that no one thought possible.

It doesn't take a genius to figure out that no entrepreneur is going to be in the Fortune 500 right from the start. The entrepreneur almost always starts a new business as a one or two person operation.

I think it is important to point out that it's through small businesses of America, particularly now in Wisconsin, through small businesses that most of our work force is employed, and that most of our new jobs are being provided. Small business is the pillar upon which our economy rests.

Between 1976 and 1982, approximately 1.9 million jobs were created in Wisconsin alone. Small firms generated 51 percent of the new jobs in the State. In 1982, of the 110,400 employee establishments recorded, 89 percent were small businesses, classified with that classification of 100 employees or less. It should be obvious, therefore, that small business is where the jobs are, where the opportunities are, and where success could be found.

Today we're here at Mount Mary because it is important for all of us to know more about the entrepreneurial movement in America. Years ago, when individuals like Henry Ford were getting started, there were no Government assistance programs available that could provide guidance, and there wasn't the educational kind of a framework that we see now at Mount Mary and in many other places around the State of Wisconsin. Now the Government is active on all levels of business development.

One of the most noteworthy is the Small Business Administration. Today we are fortunate to be hearing from the deputy administrator of this Federal agency, Mr. Marshall Parker, who is with us from Washington, DC. Educational institutions, like Mount Mary, are, as I mentioned, also playing a vital role in this overall development.

We're holding this meeting on this campus in Milwaukee today because of the growing number of women who are joining the list of risktakers by starting their own small businesses. There is no doubt that institutions like Mount Mary help in that development. And certainly that's one of the many sides to the Business Program which Mary Ellen Fletcher, an instructor here at Mount Mary, is going to address.

What you may find the most inspirational from this hearing are the modern success stories which we have assembled here today. Rather than dwell on past figures from history, I think it is important to realize that there are many success stories not just in New York or Los Angeles or Atlanta or Chicago, but also in West Bend, Waukesha, right here in Milwaukee.

Our first witness today will be the Deputy Administrator at the Small Business Administration. I would say that the entire text of each of the witness 'comments will be available, first of all, on tables outside, and second, will be printed in full in the record of this hearing. This hearing will then be incorporated with the other three hearings of the first phase, and a complete document will be made publishing the findings and the testimony and the questions of these hearings.

If during the hearing there are questions from the audience, we'd be pleased to entertain them. There's a system whereby you can fill out a card, give the questions to staff, and the questions then, if we have time, will be addressed to the various members of the panel.

Our first witness today is the Deputy Administrator at the Small Business Administration. As I mentioned before, he's the second in command at the SBA, Marshall Parker, who will give us an overview of the SBA's role in entrepreneurial activities.

Marshall.

STATEMENT OF MARSHALL J. PARKER, ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS, U.S. SMALL BUSINESS ADMINISTRATION

Mr. PARKER. Thank you very much, Senator Kasten. Let me express my appreciation for being able to be here with you, and also appreciation to you personally for what you have done as far as for the small businesses across this Nation in these last few years. I can truly say that small business does owe to you a debt of gratitude.

I'd like at this point to introduce Bob Miller, the branch manager of the SBA office in Milwaukee. He's the man who controls all of the money. If you need to borrow some, all you've got to do is go down and call Bob and say here I am, and he'll fix you up. I'm going out of town after that one.

I think that when we look at the entrepreneurial area that we are into, we've got to look at it and see what it's real impact is. And I think it's quite obvious to everyone that small business has, in fact, really been the heart and soul of job creation and innovation in this country. We've had over 30 million new jobs created since 1968. During that same time period, the Fortune 500 have actually lost 3 million jobs. So you can see who really should have the, credit for creation of those jobs. No question about it. As the President stated on many occasions small business that led us out of the recession that we had in the early 1980's.

And with that, I think if you go ahead and examine this same entrepreneurial growth, you find that we have an explosion in this country that the likes of which we, as a country, have never seen, let alone other countries of the world. We're talking about last year with 600,000 new incorporations, 400,000 partnerships, 300,000 self-employed, 1.3 million entrepreneurial activities in 1 year. So you can see how it's staggering to see the tremendous growth in this area.

Peter Drucker, a well-known consultant on management, stated that the growth of small business is the most significant economic event to take place over the last 100 years of this country's history. Tools once available only to big business are now available to small businessmen, allowing them to compete as never before. These tools include new techniques and new technologies available at reasonable prices to any small business.

Small business has the added advantage of being flexible and better able to adopt to changing circumstances much more as than big business.

To quote David Birch, a well-known research person, "You can't breed entrepreneurs. You can't cut them out, you don't stamp them out of a mold, you can't turn them out in a school one behind the other. But you can create a breeding place for entrepreneurs and entrepreneurship." And that is what this country is all about just as you have right here at this school and in many schools across the country, breeding places.

The Small Business Administrtion has tried to serve as a catalyst for creating breeding grounds for entrepreneurs. We have worked to create an awareness of the potential opportunity for those wishing to go into business.

This last year, for instance, we completed a nationwide series of 21 conferences for women business owners. These conferences began as a directive from President Reagan. The 2-day training sessions were attended by 25,000 women—half of whom were contemplating going into business. The electricity generated by the enthusiasm of the women was really something.

There enthusiam and energy is quite evident. Women business ownership. It's the fastest growing section of the small business economy today. Twenty two percent of all businesses are owned by women. There are some 3 million women business owners today doing 44 billion dollars worth of business. And I think they've only just begun, and it's something to see.

SBA offers a lot of different resources, those who would envision a business of their own. We have financial programs that would be of help—and, as a matter of fact, I can state almost without contradiction, that SBA is really the only source of long-term funding that a small business can look to at this present time. We have management assistance courses, we have cooperative agreements with the Small Business Development Centers, with our Small Business Institutes and with SCORE, retired executives who volunteer their services free to help young fledgling businesses get started and to avoid the pitfalls that others have had.

In addition to that, we work with the private sector; to determine the type of aid to be given to a small business person to avert failure.

We have formed peer assistance to be the best asssitance available to the small business person with problems. Peers do more to help than anyone else. And with that practical, actual experience, you look to that source. Under any situation, ingenuity, hard work, preparation, and determination, with that you're going to succeed.

I do want to give you a couple of illustrations, if I might, before I finish, Senator, about some of our small business persons, and particularly those who are young, some of those who are in schools. You'll be surprised at the dynamic concerns that have come out of young college students while they were in school.

Here's one I want to share with you about a student who seized an opportunity to carve his own small business niche out of a well-established nationwide service business. You know who you turn to when you want to send a letter or a package that's absolutely, positively, necessary to be there overnight. Well, this George Washington University sophomore named Bruce Cessnar went to the Federal Express office. When he got there, he was going to get a present to his cousin in New York City and it finally cost him $40.

Well, he recalled that if you get a flight for $46 to Washington and back—from Washington to New York and back, as a special package. So what he did, he caught the flight to New York, he delivered the package himself. While he was there, he had dinner with his cousin and then he flew back to Washington, all for $6 more than he would have paid to have it shipped up.

And from that, he decided to start a business called New York Express. He realized he could ship his packages from Washington to New York by Amtrak, say late at night, or tag it onto some of these cheap flights, and then he sent it up and arranged to have students in New York pick up those packages and deliver them the next morning before 9:00, and he did it much less costly than they ordinarily would have to pay to get those packages there.

At last I heard—and this was in 1984—that he was predicting some $45,000 in profits. Certainly an example of the way it should be done.

One other that might appeal to you is the fact that as an entrepreneur, obstacles can well be your sharpest motivator. An entrepreneur sees an opportunity where someone else sees a problem. I'm sure all of you have had some item of clothing with velcro fasteners. This invention came about as the result of a problem. Velcro fasteners are a result of burrs having adhered to the clothing as an innovative entrepreneur. Now velcro is used by almost everyone, from children's shoe manufacturers to the astronauts. It's just an example of what can happen with entrepreneurial spirit and determination. There are many, many more examples of this.

I might say in closing that the timing is right. The timing for young persons to go in business, or for any person endeavoring to go into business, or to expand. I don't think that we have had an opportunity such as we have now in a long time. Our interest rates are low, a lot lower than they were, inflation rates are some 3.4, GNP is running 3 or 4 percent. The Federal Reserve Board just recently in Atlanta—the chairman of the Federal Reserve Board in Atlanta stated that it looked like for the next 2 years we were on an excellent path as far as expansion, plus unfilled worldwide demands.

So, I think it's time. I hope that a lot of you will decide to go into business. If you do, look for those resources that are there for you, call on those who can furnish them.

Thank you very much, Senator.

[The prepared statement of Mr. Parker follows:]

SBA

U.S. Small Business Administration
Washington, DC 20416

STATEMENT OF

MARSHALL J. PARKER

ASSOCIATE DEPUTY ADMINISTRATOR
FOR SPECIAL PROGRAMS

U. S. SMALL BUSINESS ADMINISTRATION

FUTURE OF ENTREPRENEURSHIP

COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON ENTREPRENEURSHIP

MOUNT MARY COLLEGE
MILWAUKEE, WISCONSIN

FEBRUARY 13, 1986

BEST COPY AVAILABLE

SUDDENLY, IT SEEMS, AMERICA IS ENJOYING A NEW VOGUE, A NEW BUZZWORD: ENTREPRENEURSHIP OR ENTREPRENEUR"CHIC".

REPORTS OF MODERN ENTREPRENEURS BEGINNING THEIR TINKERING IN A GARAGE AND ENDING UP AS MILLIONAIRES, AT AGE 30 PROLIFORATE.

IF WE REFLECT BACK ON OUR OWN HERITAGE, ENTREPRENEURSHIP HAS BEEN A BASIC PART OF AMERICAN LIFE AND THE AMERICAN ECONOMY. OUR COUNTRY WAS FOUNDED BY A REBELLIOUS BAND OF SHOPKEEPERS AND ARTISANS.

WHAT WE ARE EXPERIENCING IS A REDISCOVERY OF WHAT ENTREPRENEURS MEAN TO OUR SOCIETY. WE ARE DISCOVERING SMALL BUSINESSES ACCOUNT FOR TWO OUT OF EVERY THREE NEW JOBS CREATED, PROVIDE JOB TRAINING TO NEW WORKERS, EMPLOY THE YOUNG, WOMEN AND THE ELDERLY.

WE ARE REDISCOVERING THAT THE ECONOMIC HEALTH OF AMERICA DEPENDS ON THE HEALTH OF SMALL BUSINESS AND THE ENTREPRENEURS.

THE 1980'S ARE THE DECADE OF THE ENTREPRENEUR. THE NUMBERS TELL A COMPELLING STORY:

NEW BUSINESS INCORPORATIONS ARE REPORTED IN RECORD-BREAKING NUMBERS -- ALMOST 2 MILLION IN ONLY THE LAST THREE YEARS.

MORE THAN 20 MILLION NEW JOBS IN 10 YEARS GENERATED BY SMALL BUSINESS ENTREPRENEURS.

AND ALONG THE WAY HAVE COME NEW INDUSTRIES AND NEW PRODUCTS. TWO OUT OF EVERY THREE NEW ONES ARE SMALL BUSINESS GENERATED. EVERYTHING FROM ERASABLE MEMORY COMPUTER CHIPS TO FAST-GROWING REGIONAL AIRLINES.

BEST COPY AVAILABLE

WE SHOULD ASK OURSELVES A BASIC QUESTION ABOUT OUR NEW BUZZWORD:

WHY?

WHY ARE MORE MEN AND WOMEN TAKING THE RISK OF BECOMING THEIR OWN BOSSES? WHY ARE MORE AND MORE BUSINESS SCHOOL GRADUATES FORSAKING LOW-RISK JOB OPPORTUNITIES WITH LARGE FIRMS AND STARTING THEIR OWN ENTERPRISES OR JOINING SMALL FIRMS? WHY ARE SO MANY BIG CORPORATE EXECUTIVES DROPPING OUT TO BECOME INDEPENDENT ENTREPRENEURS?

FOR ONE ANSWER, WE CAN LOOK TO THE CONTINUING INDEPENDENT SPIRIT THAT HAS LIVED IN THIS COUNTRY FROM THE BEGINNING. BEING YOUR OWN BOSS HAS ALWAYS BEEN AN AMERICAN DREAM.

THEN AGAIN, WE CAN LOOK TO THE PERSONAL AND PHYSICAL RESTRAINTS ASSOCIATED WITH CORPORATIONS.

BEST COPY AVAILABLE

WE ALSO SHOULD LOOK TO THE NEW ATTITUDE OF GOVERNMENT. GOVERNMENT CANNOT, AND CERTAINLY SHOULD NOT, ORDER A MAN OR WOMAN TO BECOME AN ENTREPRENEUR. GOVERNMENT SHOULD NOT DICTATE TO ANY COMPANY, LARGE OR SMALL, WHAT PRODUCT IT SHOULD MAKE, OR HOW MANY. SUCH AN INDUSTRIAL POLICY WOULD BE DETRIMENTAL TO THE INDIVIDUAL, TO THE COMPANY AND TO AMERICAN SOCIETY.

GOVERNMENT CAN CREATE AN ECONOMIC CLIMATE TO ENCOURAGE ENTREPRENEURSHIP, TO ENCOURAGE PEOPLE TO START THEIR OWN BUSINESSES AND TO ENCOURAGE THE CREATION OF NEW IDEAS, NEW PRODUCTS, AND NEW TECHNOLOGIES.

THE U.S. SMALL BUSINESS ADMINISTRATION HAS BEEN IN THE BUSINESS OF HELPING AMERICAN ENTREPRENEURS SINCE 1953. CONGRESS CREATED OUR SMALL, INDEPENDENT EXECUTIVE BRANCH AGENCY AND DEFINED ITS MISSION:

AVAILABLE

"TO AID, COUNSEL, ASSIST AND PROTECT...THE INTERESTS OF SMALL BUSINESS CONCERNS IN ORDER TO PRESERVE FREE COMPETITIVE ENTERPRISE."

WE HAVE BEEN CARRYING OUT THAT MISSION EVER SINCE, AND IN DOING SO HAVE BEEN BOOSTING ECONOMIC DEVELOPMENT THROUGHOUT THE COUNTRY.

SBA HAS MADE 500,000 BUSINESS LOANS WORTH $40 BILLION. IN THE STATE OF WISCONSIN, SBA HAS APPROXIMATELY 9,000 BUSINESS LOANS IN OUR PORTFOLIO FOR $910.5 MILLION. THIS FINANCIAL ASSISTANCE HAS ENABLED THOUSANDS OF ENTREPRENEURS TO ACHIEVE BUSINESS SUCCESS THAT MIGHT HAVE BEEN IMPOSSIBLE WITHOUT SBA HELP.

THE LONG-TERM LOSS RATE ON THESE BUSINESS LOANS HAS BEEN SLIGHTLY UNDER FIVE PERCENT -- AN EXCELLENT RECORD WHEN YOU CONSIDER THAT OUR LOANS GO MOSTLY TO CLIENTS WHO ARE TURNED DOWN INITIALLY BY PRIVATE LENDERS.

BEST COPY AVAILABLE

UNDER THE PRESENT ADMINISTRATION, SBA IS TURNING OVER MORE LOAN PAPERWORK AND ADMINISTRATION TO THE PRIVATE SECTOR. BETTER UTILIZING THE AGENCY'S LIMITED PERSONNEL.

IN THE FINANCIAL AREA, SBA RECENTLY INSTITUTED A LOAN POOLING AGREEMENT WITH SELECTED BANKS. ONE OF THESE IS THE FIRST WISCONSIN NATIONAL BANK OF MILWAUKEE.

THROUGH THESE POOLING AGREEMENTS, INVESTORS ARE OFFERED THE OPPORTUNITY OF BUYING INTO A POOL OF SBA LOANS. THESE LOANS HAVE THE FULL FAITH AND CREDIT GUARANTY OF THE FEDERAL GOVERNMENT.

THIS POOLING ARRANGEMENT MAKES MORE FUNDS AVAILABLE FOR SMALL BUSINESS LENDING BY PRIVATE INSTITUTIONS, AT LOWER INTEREST RATES.

TO SPUR ECONOMIC DEVELOPMENT SBA LICENSES SMALL BUSINESS INVESTMENT COMPANIES. SBICs ARE PRIVATE FIRMS WHICH MAKE

BEST COPY AVAILABLE

LONG-TERM LOANS AND EQUITY CAPITAL INVESTMENTS IN SMALL FIRMS. THE FIRMS RECEIVING SBIC ASSISTANCE ARE USUALLY NEW AND EMERGING INDUSTRIES.

SBICs LICENSED BY SBA HAVE INVESTED $5 BILLION IN MORE THAN 60,000 SMALL BUSINESSES. APPLE COMPUTER, FEDERAL EXPRESS, WANG LABORATORIES AND PEOPLE EXPRESS ARE A FEW OF THE COMPANIES RECEIVING THIS ASSISTANCE.

THE SMALL BUSINESS INNOVATION RESEARCH PROGRAM, SIGNED INTO LEGISLATION BY PRESIDENT REAGAN IN 1982, IS ANOTHER MAJOR ECONOMIC DEVELOPMENT TOOL. THIS PROGRAM DIRECTS AN INCREASING SHARE OF RESEARCH CONTRACTING TO SMALL COMPANIES.

UNDER THIS EXCITING AND PROMISING PROGRAM SMALL FIRMS RECEIVED $100 MILLION IN R&D WORK IN 1984 AND ABOUT $200 MILLION IN 1985.

BEST COPY AVAILABLE

SBA, THROUGH ITS STATE AND LOCAL DEVELOPMENT PROGRAM, WORKS WITH COMMUNITY LEADERS IN DETERMINING NEIGHBORHOODS AND SMALL BUSINESSES THAT NEED SPECIAL ATTENTION. THESE LEADERS THEN FORM DEVELOPMENT COMPANIES. SBA MUST FIRST CERTIFY THE COMPANIES BEFORE PROVIDING FINANCIAL ASSISTANCE. IN THREE YEARS, SBA HAS CERTIFIED ALMOST 600 DEVELOPMENT COMPANIES. THESE COMPANIES LOANED MORE THAN 4,500 SMALL BUSINESSES OVER $900 MILLION.

SBA'S STATE AND LOCAL DEVELOPMENT PROGRAM IS AN EXCELLENT EXAMPLE OF GOVERNMENT AND PRIVATE SECTOR WORKING TOGETHER TO SAVE BUSINESSES, CREATE JOBS AND REVITALIZE LOCAL COMMUNITIES.

THREE OUT OF FOUR SMALL BUSINESSES FAIL DURING THEIR FIRST 3-5 YEARS. REASONS FOR FAILURE INCLUDE POOR MANAGEMENT AND/OR POOR MARKETING, LACK OF ADEQUATE CASH FLOW AND INSUFFICIENT CAPITAL INVESTMENT. INCUBATORS ARE ONE ATTEMPT TO REDUCE SMALL BUSINESS FAILURES BY OVERCOMING SOME OF THESE OBSTACLES.

BEST COPY AVAILABLE

INCUBATORS CAN NURTURE THE BUSINESSES IN THEIR EARLY STAGES. THEY OFFER BELOW-MARKET RENTS, ACCESS TO SHARED EQUIPMENT, AND SERVICES, SUCH AS MANAGEMENT ASSISTANCE, RECEPTIONISTS, SECRETARIES, COPYING MACHINES, ETC.

WHILE SOME OPERATE ON A FOR-PROFIT BASIS AND HAVE THE CAPACITY TO OFFER VENTURE CAPITAL, OTHERS HAVE A GOAL OF JOB CREATION AND ECONOMIC REJUVENATION. A GROWING NUMBER OF COMMUNITIES AROUND THE COUNTRY ARE EXPERIMENTING MORE AND MORE WITH SMALL BUSINESS INCUBATORS AS ONE ELEMENT OF THEIR BUSINESS ECONOMIC DEVELOPMENT.

CURRENTLY, WISCONSIN HAS IN OPERATION TWO SUCH INCUBATORS, ONE THAT IS SCHEDULED TO OPEN IN THE SPRING, AND A NUMBER OF OTHERS THAT ARE IN THE DEVELOPMENT OR PLANNING STAGES.

THE MADISON BUSINESS INCUBATOR WAS THE FIRST TO OPEN IN WISCONSIN IN OCTOBER OF 1984. IT HOUSES 12 FIRMS AND EMPLOYS 25 PEOPLE.

AVAILABLE

THE INCUBATORS ARE LOCATED IN A RENOVATED OFFICE BUILDING. FUNDS WERE MADE AVAILABLE THROUGH A FEDERAL COMMUNITY DEVELOPMENT BLOCK GRANT AND A PRIVATE NON-PROFIT ORGANIZATION CALLED "WISCONSIN FOR RESEARCH." THE INITIAL MONEY FUNDED THE FACILITY THROUGH THE FIRST YEAR OF OPERATION.

THE FACILITY IS NOW SELF SUPPORTING.

THE TENANTS ARE HALF START-UP FIRMS AND HALF HOME BASED BUSINESSES WHO WANTED TO EXPAND. THEY INCLUDE A COMPANY PRODUCING A WEATHER PRODUCT USED IN MARINE WEATHER TRANSMITTING. SEVERAL COMPUTER RELATED BUSINESSES. ENGINEERING CONSULTING FIRMS. AND A MARKET RESEARCH FIRM.

ALL OF THESE FIRMS SHARE SECRETARIAL. RECEPTIONIST. TELEPHONE ANSWERING. COPIER. CONFERENCE ROOM. AND KITCHEN FACILITIES. THIS KEEPS THEIR OVERHEAD COSTS DOWN.

THE SECOND INCUBATOR TO OPEN WAS THE ADVOCAP SMALL BUSINESS CENTER OF FOND DU LAC, WISCONSIN. ADVOCAP HAS ONLY BEEN OPEN SINCE JULY 1985 BUT THEY ALREADY HAVE 8 FIRMS AND EMPLOY 33.

ADVOCAP IS A COMMUNITY ACTION AGENCY WHICH HAS BEEN AROUND FOR ABOUT TWENTY YEARS. THEY PURCHASED A BUILDING FROM THE COUNTY WITH A $ 15.000 GRANT FROM THE WISCONSIN COMMUNITY ECONOMIC DEVELOPMENT FINANCE AUTHORITY. OPERATION COSTS COME FROM TENANT RENTS SUBSIDIZED WITH MONEY FROM THE ADVOCAP OPERATING BUDGET. THE BUILDING WAS BUILT AS A FEDERAL WORKS PROJECT IN THE 1930'S AS A POST OFFICE AND FEDERAL BUILDING.

THE TENANTS WERE ALL START UP FIRMS, INCLUDING A FIRM THAT MARKETS AND INSTALLS COMPUTERIZED HEATING AND AIR CONDITIONING, A SMALL HOME CONTRACTING COMPANY, A SILK SCREEN AND PRINTING COMPANY, AND A CLOCK REPAIR BUSINESS.

BEST AVAILABLE

SBA HAS PLAYED A KEY ROLE IN RAISING THE AWARENESS OF THE NATION. THE STATES. AND THE COMMUNITIES OF THE OPPORTUNITIES AFFORDED SMALL BUISNESSES HOUSED IN INCUBATOR FACILITIES.

MR. CHAIRMAN. I THINK IT IS FAIR TO CONCLUDE THAT SBA HAS PLAYED A ROLE IN ASSISTING THE ENTREPRENEUR.

WHAT ENTREPRENEURS ALWAYS HAVE WANTED -- AND NEEDED -- IS A SOCIETY. A GOVERNMENT. WHOSE POLICIES ARE STEADY AND CONTINUOUS. SUCH POLICIES ARE VITAL IF ENTREPRENEURS ARE TO BE ENCOURAGED TO START NEW BUSINESSES. TO EXPAND OLD ONES. TO DETERMINE THEIR OWN LONG-RANGE PROGRAMS. ENTREPRENEURS CANNOT BE YANKED UP AND DOWN LIKE A YO-YO BECAUSE OF CHANGING AND UNFAIR AND UNPRODUCTIVE GOVERNMENT ACTIONS.

PRESIDENT REAGAN HAS SET THE NATION ON SUCH A STEADY AND CONTINUOUS COURSE. HIS ADMINISTRATION HAS GIVEN THE NATION A NEW

61-535 O - 86 - 5

BEST COPY AVAILABLE

SENSE OF INDEPENDENCE. HIS ADMINISTRATION IS A MAJOR REASON WHY MORE AND MORE PEOPLE ARE SAYING THAT AMERICA IS ENJOYING A REBIRTH OF THE ENTREPRENEUR.

AS YOU CAN SEE MR. CHAIRMAN, ENTREPRENEURSHIP IS NOT DEAD. IT IS ALIVE AND KICKING. KICKING TO MAKE ROOM FOR THOSE WHO STILL BELIEVE IN THE AMERICAN DREAM, WHO ARE NOT AFRAID TO JOIN TOGETHER WITH OTHERS JUST LIKE THEMSELVES. ENTREPRENEURS WHO ARE WILLING TO SEEK ASSISTANCE FROM THEIR COMMUNITY AND THE FEDERAL GOVERNMENT SO THAT, TOGETHER, OUR ECONOMY CAN GROW. THESE ARE THE RISK TAKERS AND THANK GOD FOR THEM.

BEST COPY AVAILABLE

YOU ARE THE NEWEST GENERATION OF RISK-TAKERS. YOUNG ENTREPRENEURS HAVE NEVER HAD A BETTER OPPORTUNITY TO BOOST THEMSELVES AND YOUR COUNTRY'S ECONOMIC VITALITY. LET ME TELL YOU WHY THAT IS TRUE. OUR ECONOMY IS READY FOR YOU. UNDER PRESIDENT REAGAN'S LEADERSHIP, WE HAVE MOVED INTO THE FOURTH SOLID YEAR OF ECONOMIC RECOVERY. THE DRIVING FORCE BEHIND THAT RECOVERY IS NEW SMALL BUSINESSES. IN THE PAST SEVERAL YEARS, WE HAVE SEEN AN EXTRAORDINARY GROWTH IN THE NUMBER OF WOMEN BUSINESS OWNERS. AND CURRENTLY, THERE APPEARS TO BE A SURGE IN THE NUMBER OF YOUNG ENTREPRENEURS, INCLUDING STUDENT ENTREPRENEURS. ONE RECENT REPORT CALLED COLLEGE CAMPUSES A "CAULDRON FOR NEW BUSINESSES."

LET ME SHARE WITH YOU AN EXAMPLE OF WHY I FEEL THIS IS TRUE. NOT TOO LONG AGO A STUDENT SEIZED AN OPPORTUNITY TO CARVE HIS

BEST COPY AVAILABLE

OWN SMALL MARKET NICHE OUT OF A WELL ESTABLISHED, NATIONWIDE SERVICE BUSINESS. YOU ALL KNOW WHO YOU CAN TURN TO WHEN YOU'RE SENDING A LETTER OR PACKAGE THAT ABSOLUTELY, POSITIVELY HAS TO BE THERE OVERNIGHT. WELL, WHEN A GEORGE WASHINGTON UNIVERSITY SOPHOMORE NAMED BRUCE PISETZNER WENT TO A FEDERAL EXPRESS OFFICE, HOPING TO GET A PRESENT TO HIS COUSIN IN NEW YORK CITY OVERNIGHT, HE FOUND OUT THAT IT WOULD COST HIM MORE THAN $40. SO HE DECIDED TO DELIVER IT HIMSELF. HE CAUGHT A BARGAIN FLIGHT TO NEW YORK, DELIVERED THE PACKAGE, HAD LUNCH WITH HIS COUSIN, AND FLEW BACK TO WASHINGTON, ALL FOR $6 MORE THAN IT WOULD HAVE COST TO SEND THE PACKAGE BY FEDERAL EXPRESS! AND THAT'S HOW HE CAME TO START A BUSINESS CALLED "NEW YORK EXPRESS." HE REALIZED THAT HE COULD SHIP PACKAGES FROM WASHINGTON TO NEW YORK MORE CHEAPLY BY PICKING THE PACKAGES UP IN WASHINGTON, SENDING THEM ON A LATE NIGHT AMTRAK TRAIN AND HAVE NEW YORK COLLEGE STUDENTS DELIVER THEM BY 9:00 A.M. THE NEXT MORNING. HIS EXPRESS COMPANY DOES IT FOR LESS THAN HALF OF WHAT OTHER COURIERS WOULD CHARGE. AND IN 1984, I HEARD HE EXPECTED TO EARN OVER $45,000 IN PROFITS.

BEST COPY AVAILABLE

BRUCE SAYS, THE BIG PROBLEM IS THAT PEOPLE HESITATE. "WE ALL COME UP WITH IDEAS THAT ARE PRETTY MARKETABLE, BUT WE HESITATE. WHEN I GOT THE IDEA FOR MY BUSINESS, I HAD THE FEELING, 'WAIT A MINUTE. HOW CAN I DO THIS BETTER THAN FEDERAL EXPRESS--THEY'RE SO LARGE?'"

BRUCE WAS A BUSINESS STUDENT LOOKING FOR AN OPPORTUNITY TO PUT THEORY INTO PRACTICE.

TO AN ENTREPRENEUR AN OBSTACLE IS THE SHARPEST SPUR TO INNOVATION. IT'S THE NATURE OF ENTREPRENEURIAL VISION TO SEE AN OPPORTUNITY WHERE SOMEONE ELSE SEES A PROBLEM. PROBABLY ALL OF YOU TODAY HAVE CLOTHES OR EQUIPMENT WITH VELCRO FASTENERS. THE MAN WHO INVENTED VELCRO WAS FACED WITH A VERY ORDINARY PROBLEM--BURRS STICKING TO HIS CLOTHES. ONLY INSTEAD OF SEEING THIS AS A NUISANCE, HE SAW IT AS AN OPPORTUNITY. BY IMITATING THE TINY PRONGS ON A BURR, WHICH HELP IT CLING TIGHTLY TO ANY SOFT MATERIAL, HE INVENTED ONE OF THE MINOR, BUT GREAT

BEST COPY AVAILABLE

CONVENIENCES OF LIFE. NOW VELCRO IS USED BY EVERYONE. FROM CHILDREN'S SHOE MANUFACTURERS. TO THE ASTRONAUTS.

IF YOU WANT TO BE AN ENTREPRENEUR. THE SCHOOL ENVIRONMENT CAN BE A KIND OF LABORATORY FOR YOU AND A WONDERFUL PLACE TO BEGIN. YOU KNOW WHAT YOUR MARKET IS. YOU KNOW WHAT STUDENTS WANT AND NEED. ONE STUDENT. JILL ITZLER. STARTED TWO BUSINESSES SERVING HER FELLOW STUDENTS. ONE WAS A DORM TELEPHONE WAKE UP SERVICE. COMPLETE WITH WEATHER. NEWS. A GOOD MORNING SONG AND A FOLLOW UP CALL TEN MINUTES LATER. HER INITIAL CAPITAL INVESTMENT WAS ZERO. SHE ALSO STARTED "LET THEM EAT CAKE." A SERVICE TO DELIVER CAKES FROM PARENTS AND THOUGHTFUL STUDENTS. WHICH HANDLED ABOUT FORTY CAKE DELIVERIES A WEEK.

THE BIGGEST BUSINESS CAN GROW FROM THE TINIEST SEED. IN 1976. A TULANE UNIVERSITY FRESHMAN. GINNIE JOHANSEN HAD WORN HER FAVORITE RIBBON-WEBBED BELT TO TATTERS. SHE WANTED TO REPLACE IT. BY 1985. SHE EXPECTED TO SELL $11 MILLION OF THOSE BELTS.

BEST COPY AVAILABLE

PLUS, SILK SCARVES AND OTHER ACCESSORIES. SHE IS NOW CHAIRMAN OF THE BOARD OF GINNIE JOHANSEN, INC. SHE ATTRIBUTED HER SUCCESS TO AN INNOVATIVE MARKETING PLAN, AND TO HER BELT'S INNOVATIVE DESIGN--IT IS ONE-SIZE-FITS-ALL, AND INCIDENTALLY, HAS A VELCRO CLOSING.

JOHN NAISBITT, THE AUTHOR OF MEGATRENDS, HAS SUGGESTED THAT AMERICAN WOMEN HAVE A GREAT DEAL TO OFFER OUR ECONOMY AS ENTREPRENEURS. HE SAYS, "WOMEN REPRESENT A SOURCE OF INNOVATION AND CREATIVITY THAT HAS LONG BEEN KEPT OUT OF THE MAINSTREAM. PRECISELY BECAUSE WOMEN HAVE BEEN EXCLUDED FROM THE 'SYSTEM,' THEY ARE NOT TRAPPED BY RULES, ASSUMPTIONS, AND TRADITIONS OF 'BUSINESS AS USUAL.'"

TO PROSPECTIVE YOUNG WOMEN ENTREPRENEURS, I WANT TO ADD A SPECIAL NOTE OF ENCOURAGEMENT. I HOPE THAT YOU ARE AWARE THAT TODAYS WOMEN ENTREPRENEURS ARE OUT IN FRONT. THEY ARE THE FASTEST GROWING SECTOR OF THE MOST DYNAMIC PART OF OUR ECONOMY--SMALL BUSINESS. TODAY THERE ARE OVER 3 MILLION WOMEN

BEST COPY AVAILABLE

BUSINESS OWNERS. THEIR BUSINESSES MAKE UP 22% OF AMERICA'S SMALL BUSINESSES AND GROSS OVER $44 BILLION IN RECEIPTS.

WOMEN ARE RUNNING COMPANIES SUCH AS KING BROADCASTING IN SEATTLE, TOMPSON TRACTOR IN ALABAMA, CENTRAL PIPE AND SUPPLY IN HOUSTON, JOCKEY INTERNATIONAL IN WISCONSIN, CHRISTIAN DIOR IN NEW YORK, AND THE HAMBURGER HAMLET CHAIN WHICH STRETCHES ACROSS THE COUNTRY.

LET ME CLOSE BY SAYING THAT OUR COUNTRY'S ECONOMY IS READY FOR YOU. IT IS FERTILE WITH OPPORTUNITIES AND IS TILTING INCREASINGLY TOWARDS AN ENTREPRENEURIAL ECONOMY. OUR EDUCATIONAL PROGRAMS ARE BECOMING MORE RECEPTIVE TO ENTREPRENEURIAL EDUCATION WHICH WILL EXPAND OPPORTUNITIES FOR YOU. YOU HAVE THE ABILITY. YOU HAVE THE MOTIVATION TO ACT NOW THAT THE TIME IS RIPE. SO TO THOSE OF YOU THINKING ABOUT GOING INTO BUSINESS SOMEDAY SOON, AS THE OLD CHINESE PROVERB SAYS, "MAY A HUNDRED FLOWERS BLOOM!"

BEST COPY AVAILABLE

Senator KASTEN. Thank you very much. I'm now pleased to introduce a member of the faculty from Mount Mary to discuss the school's business program. With us today is Mary Ellen Fletcher. Mary Ellen, we look forward to your testimony.

STATEMENT OF MARY ELLEN FLETCHER, FACULTY MEMBER, MOUNT MARY COLLEGE, MILWAUKEE, WI

Ms. FLETCHER. Thank you. On behalf of Mount Mary's administration and staff, I'd like to welcome Senator Kasten and all of the other hearing members here to Mount Mary.

The definition of an entrepreneur, as Senator Kasten stated, is one who owns and manages their own firm. The people who provide the spark for our economic system by taking risks and being innovative. At Mount Mary we attempt to foster this spirit in all of our courses through experimental learning, speech giving, project work, and so forth. We couple this with a strong sense of ethics and of moral values.

More specifically, in our small business management course, we attempt to prepare the student for the real world. The major business functions of management, marketing, production and finance are applied specifically to the small business person. Management is particularly emphasized since studies have shown the reason for a majority of business failures to be poor management. The doors generally close because of lack of cash-flow. But it is poor management that many times pushes the owner to this point.

In our course we stress planning as an important aspect of the management function. To this end, our students prepare a detailed business plan for the start of a new business to give them a feel for the amount of prior planning needed just in order to open the doors. The emphasis of this course, together with the spirit instilled in other courses, sends out women ready to face the entrepreneurial challenge of the 1980's.

The Government could add help by stressing management to entrepreneurs as well as financial help. Money is merely a bandaid. Many people who start small businesses are experts in their field, but have no formal management training. More funding of courses, seminars, et cetera, could offer a partial solution to this and might, in the long run, cut down on the need for financial aid.

The public sector could also work as a coordinator bringing venture capital funds to the entrepreneur. This could bypass tax dollars while still making financial help available.

I'd like to thank you.

[The prepared statement of Ms. Fletcher follows:]

BEST COPY AVAILABLE

Mount Mary College
2900 N. MENOMONEE RIVER PARKWAY MILWAUKEE, WI 53222 • (414) 258-4810

February 7, 1986

Thank you for this opportunity to briefly explain the Mount Mary Small Business Management course to you.

The definition of an entrepreneur is one who owns and manages their own firm. The people who provide the spark for our economic system by taking risks and being innovative.

At Mount Mary we attempt to foster this spirit in all our classes through experiential learning, speech giving, projects etc. We couple this with a strong sense of ethics and moral values.

More specifically in our Small Business Management course we attempt to prepare the student for the real world. The major business functions of Management, Marketing, Production and Finance are applied specifically to the Small Business person.

Management is particularly emphasized since studies have shown the reason for a majority of business failures to be poor management. The doors generally close because of lack of cash flow - but, it is poor management that many times pushes the owner to this point.

In our course we stress planning as an important aspect of the management function. To this end our students prepare a detailed business plan for the start of a new business to give them a feel for the amount of prior planning needed just in order to open the doors.

The emphasis of this course together with the spirit instilled in other courses sends out women ready to face the Entrepreneural challenge of the 80's.

The government could support by stressing management help to entrepreneurs as well as financial. Money is merely a band-aid. Many people who start small businesses are expert in their field - but have no formal management training. Funding of courses, seminars, etc. could offer a partial solution to this and might in the long-run cut down on the need for financial aid. The public sector could also work as a coordinator bringing venture capital funds to the entrepreneur. This could bypass tax dollars while still making financial help available.

Thank you.

BEST COPY AVAILABLE

Senator KASTEN. Mary, thank you. I might say that we are going to go through opening statements from the entire panel and then address our questions to individual panel members, and they will be encouraged to react and respond to questions that are addressed to themselves as well as to others.

Our next—and we're a little out of the order that you're sitting in, but that doesn't make any difference—our next witness is a pleasure for me to introduce, the president of the Marcus Corp., Stephen Marcus. The Marcus name is known throughout Wisconsin, and I would say throughout the Midwest, for hotels, restaurants, movie theatres.

Mr. Marcus will tell us about how it all started as a small business and where the company is heading. Steve, we're pleased to have you with us today.

STATEMENT OF STEPHEN MARCUS, PRESIDENT, CHIEF OPERATING OFFICER, THE MARCUS CORP., MILWAUKEE, WI

Mr. MARCUS. Thank you very much, Senator. My story, my personal story might be of interest to my family. I'm not so sure it's of great interest to this committee. And, as a result, I thought it best to talk a little bit about where our company got started, how it got started, because it really is the essence of entrepreneurism.

The best way for me to describe the essential ingredients to that success is to review the story of Ben Marcus, who is my father and who founded the Marcus Corp. He was born in Poland in 1911. He displayed an early aptitude for business. He spent many afternoons pulling a wagon around Stolpce, his hometown, collecting empty bottles that he sold for spending money.

In 1925, his family sailed for America. On board ship, Ben Marcus became an angel of mercy for the passengers confined to their cabins by seasickness. He brought them milk, water and—the most popular request—oranges from the ship's commissary, and his customers tipped generously. Ben Marcus landed in New York with a pocket full of cash. He had only wanted to help, but he had learned an important lesson as a teenager; that there is money to be made in pleasing people.

As an immigrant, Ben Marcus was not so much uprooted as transplanted in fertile soil. Ambitious, energetic and gifted, he found in America the perfect outlet for his latent talents, and he wasted no time in developing them. Ben Marcus learned enough English in 2 months to enroll in public school. He finished high school in a year and a half.

Despite a heavy academic load, he found time to hone his business abilities. He took a paper route during high school. After delivering his papers, he knocked on doors recruiting new subscribers. Within months he had built the largest paper route in the city and he hired three boys to work for him.

A summer's job in the paper circulation department became a full-time job, and led to a new position in the paper's advertising department. He sold ads to car dealers. [Laughter.]

Somebody must have read my copy in advance. And he was soon earning more in commissions than his boss was on salary. He moved on to the entertainment section of the newspaper, and it

was there that he found the enduring love of his business career, the motion picture business.

It was through his advertising work that Ben Marcus developed a real taste for the movie business. He became an effective marketing manager for theater owners, writing their ads, suggesting promotions and helping with film selection. He learned in return the basics of booking, equipment and finance. In his early twenties, Ben Marcus decided that his future lay in motion picture exhibition. When the workday was over, he frequently toured the cities and towns around Minneapolis—which was his hometown at the time—searching unsuccessfully at first for a theater to buy.

He used his own savings, borrowed money from his father, and persuaded his wife's cousin to join him as an investor. I think for most entrepreneurs that's a familiar scenario. Through the summer and into the fall of 1935, while his wife and infant son remained in Minneapolis, Ben Marcus lived in Ripon, donning his overalls at dawn and working with the remodeling crew into the evening. He figured that if he gave them a—if he gave people a better theater, better equipped, better run, and with good pictures, then he'd be able to do some business. That's exactly what happened and the first theater was born.

Ben Marcus booked his own films, wrote his own ads, trained his own help, and regularly served as doorman while his wife kept the books. But there were still hours left over in the week. As soon as he knew that the Campus Theatre in Ripon was a runaway success, he tried instinctively to duplicate that success elsewhere.

He plowed practically all of his profits back into the business, and he brought all of his theaters up to the highest standards attainable. He kept what many would consider a grueling pace during the early years of expansion. In addition to managing the Campus, he visited all of his theater managers once a week and made frequent trips to buy film from major distributors in Milwaukee.

On a typical day, Ben Marcus might have traveled across the State to Tomah or Reedsburg, returned in time to open the Campus, and then stayed up past midnight tallying receipts and writing ads for the next feature. Year in and year out he worked 15 and 16 hour days 6 days a week and sometimes 7. While he no longer maintains quite 15 or 16 hours a day, somehow it was contagious for there's an awful lot of us who still do it.

In the view of many experts, the motion picture industry became an endangered species with the coming of TV. Ben Marcus did not share that view. Swimming against the current, he continued to expand aggressively in the postwar years. He was gambling. He respected the power of television, but he didn't believe that it spelled doom for motion pictures. "Every house has a kitchen," he's often told me, "but there still are restaurants." Americans are gregarious.

He never closed the door to opportunity and was never reluctant to try something new. In the 1940's and 1950's, he acquired interests in a meatpacking company, a small film distributing business, several real estate development firms, and a vending company that sold popcorn and candy to 500 theaters in the midwest. He's gone

BEST COPY AVAILABLE

on to develop significant interests in restaurants, hotels and motels following the same formulas as he had developed for the theaters.

Until 1972, the Marcus enterprise was always managed very entrepreneurially. There were no outside directors and no committees. Deals were sealed with a handshake. Reporting relationships were understood but never specified. The company was actually, in the late 1960's, a network of 32 corporations and partnerships whose sole common denominator was Ben Marcus. The arrangement worked out. But as the divisions of the business grew, the need for greater order became apparent. In 1972, all of the various units were brought together under one corporate umbrella.

The Marcus Corp., which had started as a single movie theater in Ripon in 1935 during the height of the depression, today employs over 9,000 people in 16 States ranging from Wisconsin to Florida. This story is the essence of the entrepreneur at work, and the nurturing of an entrepreneurial spirit throughout the organization he founded and has led throughout the company's history.

While he might ascribe much of his success to luck, it would do his long record of success a disservice to describe it in any such terms. Rather, the story is one of hard work, a continual striving for excellence, and an impassioned effort to be a low-cost producer, an ever alert attitude regarding opportunities, a particular appreciation of the role that democracy has played in achieving such success, and the importance of surrounding himself with the best people and treating them all with dignity.

I have been asked to comment on the role that Government has played in the past in the Marcus Corp. and the development of entrepreneurism and what it should be in the future.

The story of the Marcus Corp. could only have been written in the United States where economic freedom and the free enterprise system have combined to give a young man the incentive and the opportunity to get started, to risk his life savings, and to flourish by hard work, and to achieve high rewards for the high risk that he was taking.

And, incidentally, as I use the word, "he" or "him," I really mean to include both men and women.

Ms. HANEY. Yeah, yeah. yeah. [Laughter.]

Mr. MARCUS. Frankly, upon reflection, however, it would appear that the Marcus story might never have been written if Government had been as pervasive in the 1930's and 1940's as it was really during the 1960's and the 1970's and with some remnants even today.

Over the years, Ben Marcus has achieved largely without reliance on Government programs. All he has needed was for the Government to provide a strong free enterprise system with a minimum of interference. Today's young entrepreneurs have, unfortunately, a much more difficult path, often facing ridiculous red-tape, interference, and bureaucracy. The fact that a Small Business Administration is needed today indeed does tell a story, I think.

Moreover, the staggering growth of Government, with its ever-increasing burdens in taxes, inflation, and interest rates—not to mention shortages of capital—create enormous hurdles for any business to overcome. In addition, the risk/reward relationships

have been altered to the point where many would say that the rewards simply aren't worth the risk involved.

A feeling grew up over the years that it was the U.S Government rather than a flourishing economy that provided for all of society's needs. As a result, as Government grew, it has often been at the expense of economic vitality, for decisions have been made that required our economy to pay excessively to fuel the Government engine, rather than to incentivize the economic engine.

Inflation, of course, is a hidden tax, one that can crush any business. Our Government must take action to eliminate the disgraceful deficits we've been facing for years. Frankly, this is not the time to test the wind of constituents. And I hope you'll forgive if I pontificate just a little bit. It's a time for leadership, I believe, on the part of elected officials at all levels. High interest rates, shortages of capital, and noncompetitive pricing will doom any business, not to mention a would-be entrepreneur.

Ben Marcus, had he been faced with shortages of capital and 12 percent interest rates and high taxes, would today be probably delivering newspapers or writing ads for theater owners.

A major problem facing all businessmen today is the tendency of Government to keep changing the rules of the game every few years. Five years ago there was a recognized need for the creation of new incentives for investment after many years of policies which discouraged capital formation.

While, admittedly, the changes of the early 1980's may have gone too far, it seems clear that current proposed changes will take us back to a very slow growth posture. The severe cutbacks in appropriate investment incentives, centered mainly around new depreciation rules, puts the United States greatly at risk of becoming a Nation whose main capital assets are desks and chairs as opposed to new plants and ever higher technology. Further, our ability to compete in international markets will be severely restricted.

I want to go back to the main point, however, which is that Government keeps changing the rules. In doing so, planning becomes impossible, and today's well reasoned and wise decision becomes tomorrow's albatross.

I've also been asked to comment on the role of education in entrepreneurism. As you have seen, the young entrepreneur has an inborn need to work hard to explore new vistas. Often the spark is ignited as he explores the outer limits of a job he is in, as Ben Marcus did while working at the newspaper as a youngster. The paper was in a position to let him do so.

However, in recent, more enlightened years, the Government has decreed that if one has ambition and wants to work more than 40 hours a week, he has to be paid premium pay to do so. Most companies simply can't afford to do that in order to provide training. And thus, many future, potential entrepreneurs are never allowed to get their creative juices flowing.

Because their main job takes full time, they never can get exposed to the additional mentoring and the information they need to learn and to grow. This is an educational dimension that's highly necessary to future success as a business creator, even though it may not fit the standard definition of education. Frankly, I think that the formal education system today in America is in a crisis

and at a crossroad. It threatens the future not only of the entrepreneur, but of all businesses.

The past two decades have seen our school system define profit as a dirty word to our youngsters, and at the same time apparently failed to teach them the importance of the basic skills, the three R's, the foundation that's required for learning the skills that Miss Fletcher described earlier. As a result, young people coming out of school are woefully unprepared to communicate orally or in writing, in English or in math. Without the ability to communicate and to keep track of his financial condition, where would Ben Marcus be today? And where would those 9,000 people who work in companies that he started be today?

Any business person will readily tell you how important these skills are to the success of any organization. If the entrepreneur is to flourish in the future, he'll need all these skills and more. Our educational system must reverse this trend.

Ben Marcus probably would have succeeded anywhere. The fact that he was once a new American sheds important light on his 50-year career. It's often the newcomer who sees the opportunities in a strange setting. And for him, this country's opportunities stood out as boldly as the letters on a theater marquee. He became one of America's own, building his enterprise with a restless energy that seems native to the new world.

Looking back, we know he feels pride certainly, but also the immense gratitude for the privilege of being able to pursue his dreams in our free land.

I thank you very much.

[The prepared statement of Mr. Marcus follows:]

Statement of Stephen Marcus
President, Chief Operating Officer

The Marcus Corporation

before

The Senate Small Business Committee
Subcommittee on Entrepreneurship

February 13, 1986

Milwaukee, Wisconsin

Attachment: In the Light of Liberty

BEST COPY AVAILABLE

The best way for me to describe the essential ingredients for successful entrepreneurism is to review the story of Ben Marcus who was born in Poland in 1911.

Ben Marcus displayed an early aptitude for business. He spent many afternoons pulling a wagon around Stolpce, his home town, collecting empty bottles he sold for spending money.

In 1925 the family sailed for America. On board the Cunard line's Berengaria, Ben Marcus became an angel of mercy for passengers confined to their cabins by seasickness. He brought them milk, water, and - the most popular request - oranges from the ship's commissary, and his "customers" tipped generously. Ben Marcus landed in New York with a pocketful of cash. He had only wanted to help, but the teenager learned an important lesson: there is money to be made in pleasing people.

As an immigrant, Ben Marcus was not so much uprooted as transplanted in fertile soil. Ambitious, energetic and gifted, he found in America the perfect outlet for his latent skills, and he wasted no time in developing them. Ben Marcus learned enough English in two months to enroll in public school. He finished high school in a year and a half.

BEST COPY AVAILABLE

Despite a heavy academic load, Ben Marcus found time to hone his business abilities. He took a paper route during high school. After delivering his papers, the budding entrepreneur knocked on doors, recruiting new subscribers. Within months he had built the largest paper route in the city, and he hired three boys to work for him. A summer job in the paper's circulation department became a full-time job, and led to a new position in the paper's advertising department. Marcus sold ads to car dealers, and he was soon earning more in commissions that his boss was on salary. He moved on to the entertainment section, and it was there that he found the enduring love of his business career - motion pictures.

It was through his advertising work that Ben Marcus developed a real taste for the business. He became, in effect, a marketing manager for theatre owners, writing their ads, suggesting promotions and helping with film selection. He learned, in return, the basics of booking, equipment and finance. In his early twenties, Ben Marcus decided that his future lay in motion picture exhibition. When the workday was over, he frequently toured the cities and towns around Minneapolis, searching, unsuccessfully at first, for a theatre to buy.

He used his own savings, borrowed money from his father, and persuaded his wife's cousin to join him as an investor. Through the summer and into the fall of 1935, while his wife and

BEST COPY AVAILABLE

infant son remained in Minneapolis, Ben Marcus lived in Ripon, donning his coveralls at dawn and working with the remodeling crew into the evening. Ben figured that if he gave them a better theatre - better equipped, better run, and with good pictures - then he would be able to do some business, and that's exactly what happened.

Ben Marcus booked his own films, wrote his own ads, trained his own help and regularly served as doorman, while his wife kept the books, but there were still hours left over in the week. As soon as he knew that the Campus was a runaway success, he tried instinctively to duplicate that success elsewhere.

He plowed practically all of his profits back into the business, and he brought all of his theatres up to the highest standards attainable. He kept what many would consider a grueling pace during the early years of expansion. In addition to managing the Campus, he visited all of his theatre managers once a week, and made frequent trips to buy film from the major distributors in Milwaukee. On a typical day, Ben Marcus might have traveled across the state to Tomah or Reedsburg, returned in time to open the Campus, and then stayed up past midnight tallying receipts and writing ads for the next feature. Year in and year out, he worked 15 to 16-hour days, six days a week and sometimes seven.

BEST COPY AVAILABLE

In the view of many experts, the motion picture industry became an endangered species with the coming of t.v. Ben Marcus did not share that view. Swimming against the current, he continued to expand aggressively in the post-war years. He was gambling. He respected the Power of television, but he didn't believe that it spelled doom for motion pictures. "Every house has a kitchen," he said, "but there are still restaurants. Americans are gregarious.

Ben Marcus never closed the door to opportunity, and he was never reluctant to try something new. In the 1940s and 50s, he acquired interests in a meat packing company, a small film distributing business, several real estate development firms, and a vending company that sold popcorn and candy to 500 theatres in the Midwest. He has gone on to develop significant interests in restaurants, hotels and motels, following the same formulas as in the theatres.

Until 1972, the Marcus enterprise was always managed "very entrepreneurially." There were no outside directors and no committees. Deals were sealed with a handshake. Reporting relationships were understood but never specified. The "company" was actually, in the late Sixties, a network of 32 corporations and partnerships whose sole common denominator was Ben Marcus. The arrangement worked but, as the divisions grew, the need for greater order became apparent. In 1972 all of the

BEST COPY AVAILABLE

various units were brought together under one corporate umbrella.

The Marcus Corporation, which started as a single movie theatre in Ripon, Wisconsin in 1935 during the height of the depression, today employs over 9,000 people in sixteen states from Wisconsin to Florida.

This story is the essence of the entrepreneur at work and the nurturing of an entreprenurial spirit throughout the organization he founded and has led throughout the company's history.

While Ben Marcus might ascribe much of his success to "luck", it would do his long record of success a disservice to describe it in any such terms. Rather, the Marcus story is one of hard work, a continual striving for excellence, an impassioned effort to be a low cost producer of leisure and hospitality services, an "ever alert" attitude regarding opportunities, a great appreciation of the role that democracy has played in achieving such success, and the importance of surrounding oneself with the best people and treating them with dignity.

BEST COPY AVAILABLE

I have been asked to comment on the role that government has played in the past and what it should be in the future. The story of the Marcus Corporation could only have been written in the United States, where economic freedom and the free enterprise system combined to give a young man the incentive and the opportunity to get started, risk his life savings, and to flourish by hard work to achieve high rewards for the high risk he was taking. Frankly, upon reflection it would appear that the Marcus story might never have been written if government had been as pervasive in the 1930's and 40's as it is today.

Over the years Ben Marcus has achieved largely without reliance on government programs. All he has needed was for the government to provide a strong free enterprise system with a minimum of interference. Today's young entrepreneurs have, unfortunately, a much more difficult path, often facing ridiculous red tape and interference. Moreover, the staggering growth of government with its ever-increasing burdens; in taxes, inflation and interest rates (not to mention shortages of capital) create enormous hurdles for any business to overcome. In addition, the risk/reward relationships have been altered to the point where many would say the rewards just aren't worth the risks involved.

BEST COPY AVAILABLE

A feeling grew up that it was the U.S. government rather than a flourishing economy that provided for all of society's needs. As a result, as government grew, it has often been at the expense of economic vitality, for decisions have been made that required our economy to pay excessively to fuel the government engine, rather than to incentivize the economic engine.

Inflation, of course, is a hidden tax - one that will crush any business. Our government must take action to eliminate the disgraceful deficits we have been facing for years.

Frankly, this is not the time to "test the wind" of constituents. It is a time for leadership on the part of elected officials at all levels. High interest rates, shortages of capital and non-competitive pricing will doom any business, not to mention a would be entrepreneur.

Ben Marcus, had he been faced with shortages of capital and 12% interest rates and high taxes, would never have gotten started.

A major problem facing all businessmen today is the tendency of government to keep changing the rules of the game every few years. Five years ago there was a recognized need for the creation of new incentives for investment, after many years of policies which discouraged capital formation.

BEST COPY AVAILABLE

While admittedly the changes of the early 80's may have gone too far, it seems clear that currently proposed changes will take us back to a very slow growth posture. The severe cutbacks in appropriate investment incentives, centered mainly around new depreciation rules, puts the U.S. greatly at risk of becoming a nation whose main capital assets are desks and chairs as opposed to new plants and ever higher technology. Further, our ability to compete in international markets will be severely restricted.

The main point, however, is that government keeps changing the rules. In doing so, planning becomes impossible and today's well reasoned and wise decision becomes tomorrow's albatross.

I've also been asked to comment on the role of education in entrepreneurism. As you have seen, the young entrepreneur has an inborn need to work hard and to explore new vistas. Often, the spark is ignited as he explores the outer limits of a job he is in, as Ben Marcus did while working at the newspaper as a youngster. And the paper was in a position to let him do so.

However, in recent, more enlightened years, the government has decreed that if one has ambition and wants to work more than 40 hours a week, he must be paid premium pay to do so. Most companies simply can't afford to do this in order to provide training and thus many future, potential entrepreneurs are never

BEST COPY AVAILABLE

allowed to get their creative juices flowing. Because their "main job" takes full time, they never can get exposed to the additional mentoring and the information they need to learn and grow. This is an educational dimension that's highly necessary to future success as a business creator, even though it may not fit the standard definition of "education".

Frankly, we consider the formal educational system in America to be in a crisis today. It threatens the future, not only of the entrepreneur, but all businesses.

The past two decades have seen our school system define "profit" as a dirty word to our youngsters and at the same time, apparently fail to teach them the importance of the basic skills - the three R's. As a result, young people coming out of school are woefully unprepared to communicate orally or in writing - in English or in Math. Without the ability to communicate, and to keep track of his financial condition, where would Ben Marcus be today?

Any business person will readily tell you how important these skills are to the success of any organization. If the entrepreneur is to flourish in the future, he'll need all these skills and more. Our educational system must reverse this trend.

BEST COPY AVAILABLE

Senator KASTEN. Steve, thank you very much for your testimony. As I mentioned, and also as Marshall Parker pointed out, the number of women taking risks by starting their own small business is dramatically rising. In fact, it's the fastest rising single group.

One of these success stories is Camille Haney, who is president of the Haney Co. Camille Haney will tell us how she got her start and what her plans are in this competitive entrepreneurial environment.

Camille Haney.

STATEMENT OF CAMILLE HANEY, PRESIDENT, THE HANEY CO., INC., MILWAUKEE, WI

Ms. HANEY. Thank you, Bob. In addition to being president of the Haney Co., which is a national public affairs and research firm based in Milwaukee, I'm an active member of a number of small business organizations, including IBAW, the National Association of Women Business Owners, COSBE, which is the Council of Small Business Executives, a newly formed division of the Metropolitan Milwaukee Association of Commerce, and was recently appointed to the National Commission on Jobs and Small Business, which is a 22 member commission, privately funded, but created by a bipartisan committee in Congress.

The reason I mention these organizations is that while I've been asked to share my personal and professional experiences here today, I want you to know that these organizations would be happy to work with you and your committee in the future, and to make sure that the resources available to these organizations are also available to your committee.

As a small business owner, I would like to compliment you for holding these hearings because I think that the topic of entrepreneurship is something that's really exciting right now, but it's little understood by many people. And it's important for people in your position to listen to and act on the suggestions of the small business community.

Before I get into some of my comments, I want to skip to the bottom line, Senator, and tell you the five suggestions that I am going to make for your committee in terms of what can you do to help us in the small business community. And they include taking a look at how the Government itself keeps records and data, in terms of collecting data, including the current SIC codes, the standard industrial classification codes, which need an overhaul. They haven't been overhauled in about 50 years.

Second, the way the Federal Reserve Board rules on equal credit, the Equal Credit Opportunity Act, and its impact on women business owners. Third, the Tax Code, which is currently being discussed by the Senate Finance Committee, which would put an 80 percent cap on the amount of what a business could deduct for business meals and entertainment. You may think I'm giving Steve Marcus' speech here, but to allow anything less than 100 percent deductions for legitimate business expenses would have an adverse effect particularly on small service oriented businesses that don't have the option of advertising their services, and advertising would be fully deductible.

COPY AVAILABLE

Product liability, which I know you're concerned about, is also a big concern to the small business community, as is the importance of the Small Business Administration. So, that's the bottom line. If I get cut off in the middle of it, it will be in the middle of my story instead of the middle of what I want you to do when you get back to Washington.

Marshall Parker has already given all of my statistics, including David Birch's, about the importance of small business. So, I won't go over that. I will add another statistic about women owned businesses that I don't think has been covered. Women today own at least 25 percent of all small businesses, and are starting new businesses at a rate three to four times faster than men.

Government policies, I believe, should both encourage individual entrepreneurs—many of whom might be sitting in this room—to establish new businesses, and also to help existing small businesses to grow. Your example about Coca-Cola was a good one. Every business starts as a small business.

And I'm very concerned for the State of Wisconsin because, according to Dun & Bradstreet, Wisconsin ranks 44th in the Nation in terms of the number of new business incorporations and worst in the Midwest except for Iowa. And I don't know what can be done at the Federal level to help that, but I think it's something that deserves our attention.

My own experience in establishing the Haney Co. began with friends and coworkers observing that anyone who works as hard as I do, should be working for themselves. I don't know if I was working harder or if I was just working longer, but I sure was working long. I had no idea what an entrepreneur was. I had a degree in retailing from the University of Wisconsin. I really didn't have any idea what it was like to run a business, and certainly no specific training such as the kind that you alluded to here at Mount Mary. But I knew that I had an idea for a consulting service to help large businesses, who needed help in better understanding and relating to their consumers, both in their consumer relations policies and in public policy issues in the political arena.

So in 1975, after I had worked in the Wisconsin attorney general's office for 5 years, I started a consulting company as a subsidiary to a public relations firm in Milwaukee; Barkin, Herman, Solochek & Paulsen. No one, even in the company, knew for sure what I wanted to do. But I felt that I had an idea that would fill a need. And fortunately the people at Barkin, Herman believed in me and gave me a chance to prove it.

I remember when Ben Barkin said to me well, let's give it 3 months and see how it goes. And I said OK. And my friends would say to me, what happens in 3 months? I mean, how are you going to measure this thing. You talk about business plans? My plan was sort of a wish and a prayer.

Well, we were profitable from day one. We went out and looked for clients, and the First Wisconsin National Bank was my first client. And I told them that they needed help in dealing more effectively with their customers, I guess they believed me, and we've been working with them ever since.

My company has grown from one person in 1975 to 11 employees this year. Five years ago, I exercised what is known in the jargon

as a leveraged buyout, and I bought the assets of my company from Barkin, Herman. It wasn't one of the larger leverage buyouts in the State, I can assure you, but I started a brand new company, the Haney Co.

Just to put the growth of this company into perspective after hearing the statistics about the decline, of 3 million jobs lost in the Fortune 500 in the last 10 years, my little company, all by itself, has created more new jobs than the Fortune 500 combined. I mean, that's a little awesome even to me.

Right now in my business I'd like to think that I am encouraging the people with whom I work to grow their own businesses. And I'm willing to share my experience with them, for what it's worth, to both encourage them and to take the mystery out of what it takes to run a business.

For example, I have a bookkeeper who works for me part time a couple of days a week. Through the use of computers, she is able to do much of her work at home. I've purchased a number of computer software packages and have hired a computer consultant to help us better organize our books and to do our planning and projections. And I'm encouraging her to take on additional small business clients as well utilizing everything that she has learned in my business, including the use of the software and so on.

And now, where she originally thought of me as an employer, I have encouraged her to see me as just one of a number of clients—and probably not unlike Barkin, Herman saw me when I started with them.

Now, the need for small businesses like mine to have access to qualified people to keep their books in order is an area of potential business development. In fact, I think if she plays her cards right, her business may grow to be larger than mine within a few years. Nothing would please me more.

I'd like to say a few words about the service sector and women. Nine out of ten new jobs created in the next decade will be in service industries, and 60 percent of these jobs, according to the Bureau of Labor Statistics, will be filled by women. And as women business owners continue to surge into entrepreneurship and to grow increasingly successful enterprises, I think it's clear that this group will play a significant role in job creation in the next decade.

The special needs of women in business need attention of industrialists, labor leaders and policymakers, like people in the U.S. Senate.

There are four areas in which the entrepreneurial community can be supported in a manner which would create jobs and benefit the national economy. They are: Reducing the Federal deficit, data accumulation, developing better means of data accumulation, access to credit and to capital, and education and training.

I'm not going to go into details regarding the specific Federal Government policies which need attention in each of these four areas, Senator, because they're spelled out in an attachment I'm submitting with my testimony for the record. This is a presentation made by the president of the National Association of Women Business Owners before a hearing of the National Commission on Jobs and Small Business. And she does a very good job of supporting the changes that the National Association of Women Business Owners

feel are deserving of congressional attention and action. But I'd be happy later to talk more about them.

In the short time I have left, I would like to urge you to seriously consider several specific issues which will require action by the U.S. Congress. The first is to continue the Small Business Administration. Just to give a few statistics for people in our audience who might not be aware of this, in 1983, a Government Accounting Office evaluation of the SBA's Guaranteed Loan Program reported that 82 percent of participating banks said that without the SBA guarantee, they would either not have made the loans at all or would have insisted on stiffer terms for the loans made.

Seventy-five percent of those loans were made for 6 years or longer, compared to only 15 percent of regular commercial small business loans. The longer term loans granted under SBA guarantees made the difference between success and failure of many of these firms.

And a 1983 study from the National Federation of Independent Business showed that 99 percent of commercial loans to small business exceeded the prime rate by an average of 3 percent. Now, why this is, I don't know. But I think that it's clear that the SBA is a needed resource for small business.

You know of my concern about product liability. And I just want to say if there's anything the organizations I belong to can do to help you in your fight to do something about the growing product liability crisis, we stand ready to do so.

And, finally, the Federal Tax Code. The U.S. Tax Code, as it is currently being debated in the Senate Finance Committee, as passed by the House a month or so ago, calls for a cap of 80 percent on the deduction that a business can make for meals and entertainment. It is imperative that businesses be able to continue to deduct 100 percent of these costs, which I refer to as business development investment.

I have never had a three-martini lunch in my life. Most of the lunches that we enjoy in our business consist of hamburgers brought in from Wendy's. If there are abuses, I think that the IRS has got the muscle they need to enforce the law in terms of lavish or outrageous kinds of business expenses. If more teeth are needed, I think that additional teeth should be given. But to penalize everyone in the business community, particularly small businesses because there might be some abuses, I think is just a ridiculous idea.

And I've got more information than you want to hear about this in terms of the statistics, about the fact that the Federal Government will actually lose money rather than gain money because of the job losses if this is enacted. I'll talk with you later about this. But I would like to see you become a champion for small business in terms of the travel and entertainment deduction issue.

Thank you.

[The prepared statement of Ms. Haney follows:]

THE HANEY COMPANY

The Haney Company, Inc.
Federal Plaza
310 W. Wisconsin Avenue
Milwaukee, Wisconsin 53203
414-271-7533

Testimony of Camille Haney
President
The Haney Company, Inc.

U.S. Senate Small Business Committee
Subcommittee on Entrepreneurship

Chaired by Senator Robert W. Kasten, Jr.

Mount Mary College
Milwaukee, Wisconsin
February 13, 1986

BEST COPY AVAILABLE

I am Camille Haney, President of The Haney Company, a national public affairs and research firm based in Milwaukee, Wisconsin. I am an active member of the Independent Business Association of Wisconsin (IBAW), the National Association of Women Business Owners (NAWBO), a member of the Council of Small Business Executives (COSBE), a newly formed division of the Metropolitan Milwaukee Association of Commerce, and was recently appointed to the National Commission on Jobs and Small Business, a 22 member, privately funded Commission created by Congress. The bi-partisan Commission, charged with investigating how small businesses can create 10 million new jobs for America, is co-chaired by former Presidents Ford and Carter. While I am here today to share my own experiences, I would be happy to work with your Committee to see that the resources of the organizations I've just mentioned are made available to you.

As a small business owner, I would like to compliment the members of the U.S. Senate Small Business Committee for holding hearings on the topic of entrepreneurship. It is very important to listen to -- and act on -- suggestions of the small business community.

You are well aware of the impact of small business on the Wisconsin and the U.S. economy. Economist David Birch, Director of the MIT Program on Neighborhood and Regional Change says that small businesses are the major creators of jobs in the new American economy and also provide a more stable employment base than larger firms. His data show that since the mid-1970's small businesses have created between 70 and 80 percent of all new jobs in the U.S.

Firms with 20 or fewer employees have created 70 percent, he said, and those with 100 or fewer employees, about 80 percent. He also points out that between 1970 and 1981, Fortune 500 companies have lost two million jobs.

The President's 1984 report on the State of Small Business indicates that 100 percent of the net new jobs created between 1980 and 1982 were in firms with fewer than 100 employees. The report also found that women-owned businesses are the fastest growing segment of the small business population. Today women own at least 25% of all small businesses and are starting new businesses at a rate three to four times faster than men.

Government policies should both encourage individual entrepreneurs to establish businesses, and help existing small businesses to grow.

It is the area of new business start-ups that I have my greatest concern for Wisconsin. According to Dun and Bradstreet, Wisconsin ranks 44th in the nation in the number of new business incorporations and worst in the Midwest except for Iowa. This is alarming since 2/3 of Wisconsin's new jobs are created in small business -- currently, 960,000 people are employees of small businesses (according to Small Business Administration data).

There are many definitions of entrepreneurship. Perhaps one basic approach is to use the example of the "half glass of water." We often use this as a test to determine whether someone is an optimist or pessimist. The optimist, of course, sees that glass as half full, the pessimist as half empty. The entrepreneur, however, sees the half glass of water and recognizes a demand in the market place not yet being filled, and more importantly, will

BEST COPY AVAILABLE

find a way to fill that glass in an increasingly productive and profitable manner.

Creating an environment which encourages entrepreneurs to see the glass as "half full" is something deserving of both government and business attention. Paul A. Samuelson, founder of the MIT Graduate Department of Economics, says in his most recent book, Economics, co-authored with William D. Nordhaus, Professor of Economics at Yale University,

> "The task of fostering an entrepreneurial spirit is the key role of government. It involves setting up extension services for farmers; education; training; establishing management schools; and making sure that government, itself, maintains a healthy respect for the role of private initiative."

My own experience in establishing The Haney Company began with friends and co-workers observing that anyone who works so hard should be working for themselves. I had no idea what an entrepreneur was -- and no training for running a business. But I knew that I had an idea for a consulting service for large business clients who I knew needed help in better understanding and responding to consumer issues -- both in their customer relations policies and in public policy issues in the political arena.

In 1975, I established a consulting company as a subsidiary to the Barkin Herman Solochek & Paulsen public relations firm in Milwaukee. No one knew for sure what I wanted to do -- but I knew my idea would fill a need. Fortunately, the people at Barkin Herman believed in me and gave me a chance to prove it. We were profitable from day one. Five years later, I purchased the assets

BEST COPY AVAILABLE

of my division from Barkin Herman (one of the bigger leveraged buyouts in the state history it wasn't) and established a brand new corporation, The Haney Company. My company has grown from one person in 1975 to eleven employees this year. To put this in perspective, my little company has created more net new jobs in the past decade than have all of the Fortune 500 companies put together!

Right now in my business, I like to think that I am encouraging people with whom I work and people who work for me to grow their own businesses and am willing to share my experience with them to both encourage them and to take the mystery out of what it takes to run a business. For example, I have a bookkeeper who works for me part time, a couple days of week, and through the use of computers is able to do much of the work at home. I have purchased a number of software packages, and have hired a computer consultant to work with her not only to help her more efficiently manage our books and help me with financial projections but to enable her to take on additional clients as well.

Where she originally thought of me as an employer, I have encouraged her to see me as but one of a number of potential clients -- not unlike the way Barkin Herman saw me when I left their company several years ago. The need for small businesses like mine to have access to qualified people to "keep their books in order" is, as I see it, an area of potential business development. In fact, if she plays her cards right, her business may ultimately be much bigger than mine! Nothing would please me more.

BEST AVAILABLE

The Service Sector and Women

Nine out of ten new jobs created in the next decade will be in service industries, according to new data released by the Department of Labor's Bureau of Labor Statistics (BLS), with the economy adding a projected 10 million to 20 million new jobs. BLS predicts that 60% of these jobs will be filled by women.

Since women are the major employees of these businesses, it is important to look at some statistics about businesses owned by women. A study of the National Association of Women Business Owners (NAWBO) membership funded by the US Small Business Administration and released in October of 1984, demonstrated that 69% of NAWBO's members own corporations, 8% partnerships and the rest sole-proprietorships. Average gross annual receipts of NAWBO members were $425,000; these firms employed an average of 11 full-time employees and 14 part-time employees.

As women business owners continue to surge into entrepreneurship and to grow increasingly successful enterprises, it is clear this group will play a significant role in job creation in the United States over the next decade. The special needs of women entrepreneurs and service-oriented business owners need the attention of industrialists, labor leaders and policymakers like members of your committee.

There are four areas in which the entrepreneurial community can be supported in a manner which will create jobs and benefit the national economy. They are: reducing the federal deficit, data accumulation, access to credit and to capital, and education and training.

BEST COPY AVAILABLE

Details regarding specific federal government policies which need attention in each of these four areas is spelled out in an attachment I would like to submit for the record. This is a presentation made by Mary Kelley McCurry, President, National Association of Women Business Owners before a hearing of the National Commission on Jobs and Small Business in Ann Arbor, Michigan, December 9, 1985.

In the short time I have left, I'd like to urge you to seriously consider several specific issues which will require action by the US Congress:

1. Small Business Administration

   I'm persuaded that the Small Business Administration is providing a significant support system for small businesses both in management support and consulting and in loans for small business. In 1983, a Government Accounting Office evaluation of the SBA's guaranteed loan program reported that:

   - Eighty-Two percent of participating banks said that without the SBA guarantee, they would either not have made the loans at all or would have insisted on "stiffer" terms for the loans made.
   - Seventy-five percent of these loans were made for six years or longer, compared to only 15% of regular commercial small business loans. The longer term loans granted under SBA guarantees made the difference between success and failure for many of these firms.

COPY AVAILABLE

- A 1983 study from the National Federation of Independent Business showed that 99% of commercial loans to small business exceed the prime rate by an average of 3%.

I urge you to save the SBA.

2. <u>The Federal Tax Code</u>

<u>Travel and Entertainment Deductions</u>

The U.S. tax code, as it is currently being debated, calls for a cap of 80% on the deduction that a business can make for travel and entertainment. It is imperative that businesses continue to be able to deduct 100% of these costs which I refer to as business development investment. It is particularly important to small service business such as The Haney Company. Small businesses like mine cannot advertise our services through mass media -- first, because we couldn't reach our targeted potential clients, and secondly, because we can't afford it. The only way we can market our services is through face-to-face meetings with prospective clients. Not only is this a more cost-effective tool than mass marketing, but it is often the only marketing approach service businesses can afford. Why shouldn't these business development costs -- our direct marketing costs -- be as fully deductible as large corporations' massive advertising campaigns?

BEST COPY AVAILABLE

3. Product Liability

Senator, I know that you have been concerned about the growing crisis in product liability for some time. I hope that given the real crisis that small businesses throughout the country are facing because of their inability to obtain or afford liability insurance, that your colleagues will act on product liability reform at the Federal level this year.

It's time for lawyers on both sides of the issue, insurance companies, non-profit organizations, trade associations, consumer groups and others involved in product liability problems to come together, put aside their narrow viewpoints and develop creative, less costly approaches to resolving this issue.

We must look at alternative systems to solving the problem by providing mechanisms for out-of-court settlements. I understand that the Senate Commerce Committee Chairman is looking at mediation boards and binding arbitration.

Other proposals which deserve our attention include: voluntary industry review panels, self-regulatory organizations, and third-party claims-dispute mechanisms.

It is time for us to get serious about product liability reform.

Thank you for the opportunity to testify before this subcommittee.

BEST COPY AVAILABLE

ATTACHMENT TO TESTIMONY OF
CAMILLE HANEY
U.S. SENATE SMALL BUSINESS COMMITTEE
SUBCOMMITTEE ON ENTREPRENEURSHIP
February 13, 1986

STATEMENT OF

MARY KELLEY McCURRY
PRESIDENT, NATIONAL ASSOCIATION OF WOMEN BUSINESS OWNERS

BEFORE THE

COMMISSION ON

JOBS AND SMALL BUSINESS

ANN ARBOR, MICHIGAN

DECEMBER 9, 1985

Good afternoon Ladies and Gentlemen. I am very pleased to be here this afternoon. I am Mary Kelley McCurry, President of the National Association of Women Business Owners and President of McCurry & Company, Inc., a certified public accounting firm based in Denver, Colorado.

The National Association of Women Business Owners was founded in Washington, DC, in 1974. NAWBO has grown to become an organization of more than 2500 member firms with 28 chapters across the country and additional chapters in formation. Our organization is a member of the international group of women business owners, Les Femmes Chefs d'Entreprises, Mondiales.

An extensive membership survey conducted late in 1983 and released in 1984 indicates that our members have annual, average gross revenues of $425,000. They average 11 full time employees with an additional 14 parttime. 80% of our members are in the services sector. 60% of our members are doing business in the corporate form and more than 51% have growth rates in excess of 20% per year.

Women-owned businesses are the fastest growing segment of the small business population.(1) Today women own at least 25 percent of all small businesses in the country and are starting new businesses at a rate three to four times faster than men.

---

1. The State of Small Business: A Report of the President, May, 1985, page 289.

BEST COPY AVAILABLE

There are many definitions of entrepreneurship. Perhaps one basic approach is to use the example of the "half glass of water". We often use this as a test to determine whether someone is an optimist or pessimist. The optimist, of course, sees that glass as half full, the pessimist as half empty. The entrepreneur, however, sees the half glass of water and recognizes a demand in the market place not yet being filled, and more importantly, will find a way to fill that glass in an increasingly productive and profitable manner.

There is more than one road to entrepreneurship. Self-employment should not be overlooked in its role in job creation. Today nearly 9% of U.S. employees work for themselves and the numbers of individual entrepreneurs are growing 3 to 4 times faster than the salaried work force, both in Great Britain and North America. Based on the trends of the last 10 years, the self-employed can be expected to make up at least 15% of the U.S. workforce by the mid 1990's, including one-third to one-half of all technical and professional personnel.(1)

Enterprise development is the most significant area of job creation and the one in which we find most NAWBO members operating. In Innovation and Entrepreneurship - Practice and Principles, Peter Drucker indicates,

---

1. Future Forces: An Association Executive's Guide to a Decade of Change and Choice, Snyder and Edwards, 1984, page 34.

BEST COPY AVAILABLE

> "... that since the late 1960's job creation and, in fact, job growth in the United States has shifted to a new sector. The old job creators have actually lost jobs in the last 20 years...we have not, in fact, created 35 million new jobs; we have created 40 million or more. Since we had to offset a permanent job shrinkage of at least 5 million jobs in the traditional employing institutions and all these new jobs must have been created by small and medium size institutions, most of them small and medium size businesses and a great many of them, if not the majority, new businesses that did not even exist 20 years ago."

We must be aware that the majority of new jobs are being created in smaller companies and, as I have indicated, from those areas which did not even exist 20 years ago.

Entrepreneurial business, therefore, must be supported and encouraged if we are to create jobs and maintain a reliable and sufficient work force upon which to draw.

We see today many states and locales chasing smoke stacks or "mega employers" in an effort to bring more jobs into their region. I put forth to you that this is not the creation of new jobs, but it is rather job relocation which does not benefit the country as a whole. A total of 6,513,000 new jobs were created from November 1982 through October 1984. The total employment gain for all small business dominated industries during the period was 11.4% compared to 5.3% in large business dominated industries. One significant finding is that small businesses produce more than their proportionate share of net new jobs relative to the small business share of total employment. Small firms with fewer than 100 employees represented 37.4% of total

employment in 1976 and generated 52.6% of net employment growth from 1976 to 1982.(2) (State of Small Business; A Report of the President, May, 1985, pages 15-31.)

Employment growth in firms with fewer than 100 employees has exceeded that segment's job share in every period except 1978 to 1980. Firms with 1 to 19 employees represent 20.5% of jobs and produced 38.5% of the jobs generated between 1976 and 1982, and 232.6% of net jobs created between 1980 and 1982. Large firms with more than 500 employees lost approximately 900,000 jobs during the same period of time. Firms with employees from 20 to 499 also lost jobs during the period.

There is concern with the smaller size firm that employment is temporary and most subject to elimination or layoff during periods of recession or business decline. The State of Small Business Report, May, 1985, indicates that relatively more establishments owned by the smaller enterprise (those with fewer than 20 employees), show constant employment and relatively fewer show reduction of employment. Enterprises with more than 500 employees, however, appear to exhibit either reduction of employment or, less frequent, constant employment than enterprises in other size classes. Therefore, job continuation appears secure in the smaller firms.

2. (State of Small Business; A Report of the President, May, 1985, pages 15-31.)

We see that entrepreneurship is the source of new jobs and there is every reason to believe that this will continue in the future with proper support and management.

Paul A. Samuelson, founder of the MIT Graduate Department of Economics, says in his most recent book, Economics, co-authored with William D. Nordhaus, Professor of Economics at Yale University,

> "The task of fostering an entrepreneurial spirit is the key role of government. It involves setting up extension services for farmers; education; training; establishing management schools; and making sure that government, itself, maintains a healthy respect for the role of private initiative."

There are four areas in which the entrepreneurial community can be supported in a manner which will create jobs and benefit the national ecomomy. They are: reducing the federal deficit, data accumulation, access to credit and to capital, and education and training.

The federal defict is the primary economic issue in our country at this time and appears it will continue to be into the next century.

Small business has been a persistent and loud voice for deficit reduction. To establish a healthy and stable economic environment in which well-managed businesses can thrive and flourish, we must take immediate steps to cut America's hemorrhaging federal deficits. Small businesses greatly fear that growing national debt will crowd out capital markets, short the recovery, and force interest rates to climb upward again. Because they often have to borrow at prime plus three percent, small firms routinely bear the brunt of interest rate increases.

BEST COPY AVAILABLE

Accordingly, NAWBO supports: a representative bipartisan commision to achieve a national consensus on a spending cuts and tax increase package, in which sacrifice is perceived to be shared equally. We also support pursuing many of the recommendations in the President's Private Sector Survey on Cost Control, popularly known as the Grace Commission, which suggested methods of saving billions of dollars.

The entrepreneurial community appears to develop and grow in spite of the deficit and its related impact on "inflation", "stagflation" and high interest rates. How much more growth could there be experienced with a stable and realistic approach to reducing the deficit!

The second area I wish to discuss in terms of supporting entrepreneurship deals with data accumulation. In order to develop effective economic policy, we must accumulate data in a manner which allows us to formulate realistic and appropriate policy. This is true at a governmental level and the individual enterprise level as well. Although the federal government produces what is almost an infinite number of statistics as disclosed in the Statistical Abstract of the United States and other reports, comparatively little information is available on economic growth, innovation, innovative product pricing, import prices etc. The very components of entrepreneurship.

There is a prevalent belief that women-owned businesses are boutiques and small, home-based industries. The misconception that most women-owned businesses are sole proprietorships earning less than $10,000 per year,

fostered by the government's own numbers, greatly interferes with the ability of the women-owned business community to focus the attention of the government and private sector on its needs, abilities, and contributions to the economy.

In both 1972 and 1977, the Bureau of the Census substantially undercounted the number of women-owned sole proprietorships in their Economic Censuses. Federal income tax returns were the primary source of information for those reports. Business interests reported on the tax returns of married individuals were attributed to the first taxpayer on the return, usually the husband. In 1977, the Census Bureau reported approximately 700,000 women-owned sole proprietorships.(1)

In 1977, the Internal Revenue Service drew a sample of tax returns and from that sample estimated that there were approximately 1.9 million women-owned sole proprietorships, indicating that the Census Bureau figures had been off by approximately 1.2 million.

---

1. The Census Bureau also conducts the Current Population Survey, a monthly survey done for the Department of Labor's Bureau of Labor Statistics. Its questionnaire, which is directed primarily at issues of employment and unemployment, asks whether the respondent is self-employed in his or her own business, profession, or farm, and whether the business is incorporated. This data permits no detailed analysis of the business itself.

Both Census Bureau and IRS data have not included, and there are no present plans to include, any corporations other than those which elect Sub-S status and therefore, report the names of their shareholders on their income tax returns. The survey of NAWBO members I referred to earlier indicates that of the 60% who are incorporated, 47 percent do not elect Sub-S status. Public policy should not be made without better information on these businesses.

Information that is collected is based on out-dated assumptions and methods. Another example of this is the "Standard Industrial Classification" system developed in the 1930's. The present SIC code seriously under-represents the services sector. The goods producing sector is represented by 599 different industry categories although it represents only 27% of employment and 32% of the gross national product. The services sector is represented by only 423 industry categories even though it contributies 70% of the jobs and 68% of the gross national product. This outdated statistical framework is grossly inadequate to support development of sound economic, tax, trade, and regulatory policies. Lack of sound data is a practical barrier to understanding the true nature, dimensions and character of the dynamic entrepreneurial business community. This understanding is essential to articulating the proper role for the federal government in promoting growth, entrepreneurship and innovation.

Peter Drucker has stated that the aggregates on which all statistics are built are now 50 years old, and so, many of our national statistical indices are off 25 to 40 percent, when for effective policy making, they should be off no more than plus or minus 5 percent. Surely, this is unacceptable.

BEST COPY AVAILABLE

We must accelerate our efforts, therefore, to modernize our national data collecting capabilites. Much of this can be done within present systems and without an unwarranted increase in paperwork for the nation's businesses.

Accordingly, NAWBO supports the development of a methodology for revising and displaying a new classification system which would be both responsive to and reflective of the rapidly changing entrepreneurial economy and economic structure of the United States. The goal is a flexible classification system which, through periodic updates, will accomodate changes in economic structure and activities while maintaining a basis for historical comparability.

We also support using such revised SIC classifications for management and procurement information and control purposes. Development of a system to provide comprehensive information on commercial transactions between U.S. companies and foreign entities which would assist in the formulation of international trade policies and assist U.S. business in identifing and evaluating market opportunities.

A November 11th article in the Washington Post indicates that 9 out of every 10 new jobs created in the next decade will be in the services industry. Surely improved data accumulation and statistical evaluation will assist us in recognizing this sector's role in creating new jobs.

COPY AVAILABLE

Another area of entrepreneurial support has to do with access to credit and capital. The entrepreneur is sometimes perceived as the "wild inventor" who can obtain venture capital from all sources by simply picking up the phone. As Drucker points out entrepreneurship is, in fact, somewhat more mundane than that. Access to capital continues to be a major concern of all small business owners and women business owners in particular. Many service and information sector businesses will not have a public market for their stock and therefore, venture capital in the traditional sense is not available.

Access to credit and capital for small and entrepreneurial businesses are issues of enterprise development. Small entrepreneurial businesses more than any other segment of the community understand the competition for funds. For this reason, we in no way suggest that loans be made to poor credit risks. There are, however, good, viable businesses not adequately funded and therefore, not able to expand and add jobs, due to the market place's unwillingness to support the entrepreneurial community in any relation to its job creation and economic development capacity.

The President of a small town bank in Colorado told me of a continuing experience he has with bank examiners. Loans made to new businesses are reviewed in more detail than other loans and always criticized regardless of status because they are loans made to new businesses. This experience does not support entrepreneurship, nor does it encourage bankers to make good loans to new and emerging businesses - the primary source of new jobs.

BEST COPY AVAILABLE

The task of the banker as entrepreneur is to mobilize other people's money for allocation to areas of higher productivity and greater yield. We need to encourage and support banks and lending institutions to operate from this entrepreneurial model.

New policies and procedures need to be developed to meet the needs of the services industries. For example, it is much easier and usually possible to finance 80 percent of a fixed asset such as a drill press. It is next to impossible to finance even 25 percent of hiring one new employee.

The Equal Credit Opportunity Act of 1974, 15 U.S.C. & 1691 et seq., should have, but did not, erradicate barriers which have adversely affected the ability of women-owned and minority businesses to secure business credit. Although the Act requires financial credit institutions to make credit available equally to all credit worthy customers without regard to sex or marital status, many of its provisions have been interpreted not to apply to business transactions.

The Federal Reserve Board was given the authority to prescribe regulations to cary out the purposes of the Act.

Their main regulation, Regulation B, amplifies the basic requirements of the Act. Regulation B prohibits a creditor from asking about an applicant's sex, race, color and national origin. It also restricts creditors from asking an applicant questions relating to birth control practices and family planning. The Act restricts a creditor's ability to seek information about an applicant's spouse and assures that each credit worthy individual can obtain separate credit. The Act also requires creditors to inform unsuccessfull applicants of the specific reasons for an adverse action or of their right to request the reasons.

COPY AVAILABLE

Despite the existence of these potential safeguards, the Federal Reserve Board's rules generally exempt business credit transactions from the rules requiring notification, retention of records and inquiries about marital status.

Accordingly, NAWBO supports withdrawal of the current exemption of business credit transactions from provisions of the the Equal Credit Opportunity Act of 1974.

In order to stimulate investment or equity capital, we support a small business investment incentive act which would allow qualified small businesses to raise capital while permitting individual investors a deduction for example, of $15,000 ($30,000 on a joint return) for stock purchased in that small business.

With regard to education and training, there is appropriately great concern about recognizing the needs of those workers who have been displaced as a result of shifts to automation, the services economy, foreign competition, etc. As we plan for the future, let us also consider the fact that many of our clerical workers may in fact be displaced as a result of continued technological changes. Clerical workers constitute by themselves, the largest single class of employees in the United States labor force making up about 20% of all employed persons.(1)

1. Future Forces: An Association Executive's Guide to a Decade of Change and Choice, Snyder and Edwards, 1984, page 18.

It should be noted that no one's livelihood depends 100% on the current conditions. It's far more dependent on tomorrow's conditions and our education and training programs from kindergarten through high school, higher education, vocational education, and adult education, must look towards that future.

I caution the commission in looking at job training programs not to take people off the assembly line, put them in front of a CRT and feel that this is sufficient. The battle may be won, but the war lost. We need to foster within our workforce the attitude and willingness to continually learn. Education does not stop after high school, vocational school, college, whatever. It will continue for all segments of the workforce, not just those in highly technical or professional roles. This change in attitude development must begin at the very earliest of ages and continue with all workers.

In 1983 the federal government spent $20.3 billion on education. $9 billion was spent at the elementary and secondary levels and $11.3 billion was spent on institutions of higher learning. During 1983, federal aid to state and local governments for employment and training assistance exceeded $2.9 billion.(1) These are significant expenditures even in the context of the federal budget. I do not appear before you today suggesting necessarily that we spend more, but rather that we spend in a more efficient and productive manner.

1. Statistical Abstract of the United States, 1984, pages

BEST COPY AVAILABLE

In this context, it should also be noted that 1 percent unemployment adds $25 to $30 billion to the federal budget.(2)

The American labor market has undergone and will continue to undergo significant changes due to both the "baby boom", the "baby bust", and shifts in the economy that have been discussed before. Competition for jobs and career advancement is expected to remain intense for those currently in the 25 to 44 age bracket. The technological revolution which we have witnessed over the past few years will continue to displace many workers.

Workers will experience continual change in their careers and over the span of their working lives. Vocational education and continuing education for adults must become the norm, not the exception. Our education and training programs must be designed and implemented in a cost effective, meaningful, realistic manner providing timely retraining for displaced workers and for workers in fields undergoing significant technological change.

---

2. America's Economy Problems and Prospects, Editorial Research Reports, 1983, Congressional Quarterly, Inc., page 19.

BEST COPY AVAILABLE

The distribution system for much of this education and training currently exists via existing institutions of public education. We must also recognize the amount of on-the-job training that small businesses currently provide.

Accordingly, NAWBO supports research, policy development and implementation of innovative approaches to education and training and the application of new technologies which are evolving to public education instruction in the areas of language arts, mathematics, social studies and science.

In addition, the entrepreneurial sector's contribution to job creation and the economy must be recognized by fostering entrepreneurial research and expanding effective entrepreneurial education both of which will support current entreprenuers in their enterprise development and prepare future entrepreneurs to become successful.

We also urge the continuation of the provisions of Internal Revenue Code Section 127 which permits the deduction of educational expense incurred by an employer for educational assistance to the employee.

Ladies and gentlemen, I congratulate you and applaud you for your work on behalf of Jobs and Small Business. The very name of your commission indicates the important and absolute relationship between job creation and small business development. Thank you for this opportunity to represent the National Association of Women Business Owners.

Senator KASTEN. Camille, thank you very much. And I think that a number of us agree with the—the same people that are now trying to start to manipulate this business entertainment thing are the same that brought us automobile mileage reporting requirements about a year ago, and 10 percent withholding on interest and dividends the year before that. I think that there is a point in which we've got to have some reasonableness and common sense. And I'm hopeful that we can work together to reach that point.

Our next speaker is another successful Wisconsin entrepreneur, a person you may have seen on television or heard on the radio because in this part of the State, Russ Darrow's name is a household word. As president of the Darrow Management Co., Russ Darrow will describe his rise as an automobile dealer and a successful Wisconsin entrepreneur.

STATEMENT OF RUSS DARROW, PRESIDENT, DARROW MANAGEMENT CO., WEST BEND, WI

Mr. DARROW. Thank you very much, Bob. Good afternoon. I'm really pleased to be here to discuss the exciting, important and rewarding subject of the entrepreneurial spirit in America. As you might expect, my fortunate and successful experience has caused me to be attracted to articles and stories like those we've heard today, and TV shows, and other real life experiences where people in this great country have started with a simple idea or a dream and through hard work and long hours, and an unrelenting commitment to succeed, have achieved success, fame, wealth, and other relative measurements by which people in our society judge one another.

My story is just one small account of how success can be achieved. But in my case, I am most pleased because from the days when I was 22-years-old and single, as most college students are just about the time they're ready to graduate, to the present time, I've maintained a strong degree of logic, balance, integrity, and respect in my business life, social life, personal life, and in the overall level of respect that I share with my friends, business associates, employers and their families.

In other words, from the start my objectives were not strictly economic or aimed toward status, power, notoriety, or any individual ego trip, but rather toward creating and constantly improving the life style that I, as an American, starting out would like to have initially, that I would share with my wife thereafter, and then after that, that I would share with my children and their children in the years to come.

That may sound idealistic, even hokey, but I think that you should realize that over a period of 10, 15, or 20 years in a successful person's life there are so many decisions that you are forced to make daily which can and will effect your individual futures for good or for bad.

I have never had a long-range specific economic goal, but I have had broad and rigid discipline guidelines for my own personal moral and ethical behavior and social conduct so that the same American society that rewards us for our success, cannot and will not destroy that success by a lack of confidence, a lack of faith and

business support as a result of negative news coverage and/or social or economic rejection.

I started out in the auto industry by accident. I was attending college at the University of Wisconsin in Madison. In the summer of 1960, I purchased my first car. I was shopping that led me to Heiser Ford on Prospect Avenue, right down on Milwaukee's east side. And somehow I ended up negotiating for the purchase of the car. Two of the salesmen who were there met me and talked to me about coming to work there because of my negotiating experience in looking for a car.

Heiser never ran ads for people, and they did have an opening, so they said why don't you check us out for a little while. And they did, and I did, and I said I'd check it out for a couple of months. It worked out. It was not designed as a career decision, but instead as a learning process. It was very interesting that I heard Ben Marcus with the same thing. It's a matter of seeing an opportunity and running with it and seeing how far you can go. I had no defined career plan or any contacts for a post-college foot in the door opportunity. There was nothing like that.

While at Heiser Ford, I made a couple of firm decisions. One of them was to learn every single thing I could about the car business. I found that my youth was really strongly in my favor. This has been mentioned here also today. Everybody else is eager to help the new, young rookie. Day after day and week after week I became even more determined to learn and benefit from the good things and the bad things that I have seen and experienced around my company and around the people that I was working with every day.

As I said before, the daily decisions are terribly important. And later I realized that I must have had a stronger commitment than I thought to serious hard work, and learning and efficient and productive use of the time. I remember my very first impression working at Heiser Ford was that salesmanship breeds laziness.

During the college summers I worked unloading freight cars. I'm not trying to sound like some old guy that tells you about depression stories, but I just had a regular summer job. I got $2.50 an hour and I unloaded freight cars for the Jacobus Co., and I got lucky when he took me off the bricks and stuck me in the lumber. Then I could slide it, I didn't have to lift it. It was a good deal. The next year they went on strike and they let me drive a truck and I drove a truck for a while. That was the neatest thing of all. I got 20 cents an hour more to work half as hard. It was great, but it really made me realize that people around me weren't taking advantage of their time as productively as I felt they should.

I made a commitment not to fall into that trap ever in my entire life. I quickly found out at that age what I did not want to be like. Every single person, no matter how rich, how poor, how young or how old, how famous or how private, has the very same 24 hours in a day. The key to success, in my opinion, is how to spend those 24 hours every single day. The result of that type of thinking and commitment will, in my opinion, separate and reward the relatively few people who adhere to that play from the vast majority of people who cannot or will not.

In December 1965, after being at Heiser for 5 years, I became aware of a car dealership available in West Bend, WI. That dealership had an AMC and Jeep dealership, but there was also a Chrysler dealership in that city that had closed up. So I made a deal, I guess I worked on a deal, and somehow—as a matter of fact, you'll know the name because it was Wally Rank. He had the AMC/Jeep dealership on Main Street. And, of course, since then he's become a supername in Milwaukee. At that time he had Rank & Son Chrylser Products in Milwaukee, but he had a satellite dealership and he didn't live there, so I made a deal with him and we bought that out. So Wally and I have been good friends for years, and that was the start of my career.

When I was at Heiser, I got married and had a wife, of course, and two children. We didn't have a lot of money. I needed $60,000 to buy a dealership, and I had to finance the dealership building and property. I was able to round up $12,000 in cash, and I borrowed $48,000 from a major Milwaukee bank, First Wisconsin. At 25 years old, no bank wanted to talk to me or my parents, who were willing to cosign it. It wasn't that it was that good of a deal, but they were willing to guarantee my $48,000 note.

I didn't know about the SBA. I mean, I didn't know what or where it was. So, one really good banker friend in Milwaukee had faith in the 25-year-old kid. So with his blessing, my parent's guarantee, I got the $48,000. I leased the building from the guy that owned the property until I could afford to pay it off. I paid off the $48,000 in 11 months and I was on my way.

Two years later, and another interesting story about how you get restless. In December 1967, I brought my second dealership in Appleton, WI. Earlier I talked about making decisions. Well, back then, again, decisions on work ethic, free time, how high is up and others caused me to become bored with running around with a small business in West Bend, WI at the age of 25 and thinking that's as far I was going to go the rest of my life.

I mean, Thursday afternoons was country club day, and that's the way it was. Saturdays you took off, and what you did is try to figure out during the week how few work hours you could actually put in a week in a small city. And that still goes on today all over America. And that's fine, but I just rejected that. I couldn't handle that. The chemistry didn't seem quite right.

So, I just kept on going, and I did. Appleton went well, so I jumped at another opportunity which came up suddenly, by accident, in December 1970 when I was able to purchase another Chrysler-Plymouth dealership right out here in Waukesha. They were going to sell it to somebody else who worked for the factory. That didn't make any sense. I heard about it at a dealer meeting and I quickly found the guy and said, I've got to have it, you can't sell it to the factory and make it a factory owned store. If you're going to find a real buyer, let's go, and we did.

That was a major turning point in my career, because three dealerships really create a tremendous opportunity, but also a heavy risk. Having been counseled on that, I found it necessary and wise to create a management company to oversee the detail and defensive safeguards of my expanding businesses. We located that management company in West Bend, WI, where I still am today.

As you may have heard today several times, success attracts success. That's how it was for me. When I was 30 years old, becoming more successful, other people would come up to me with opportunities. Along that line, by the way, I went and found a law firm and a few people to kind of give you guidance. You ask a lot of questions, and you have to go and find out, well, how do these other people do it. When you get to a certain level—my own father is a lawyer, but I was getting a little too complex. All of a sudden we had a lot of employees and a lot of responsibilities, tax questions, real estate interest, and a whole bunch of things. So you kind of seek out a way, and you ask a lot of questions, and somehow we found somebody to help us cut—just as Steve mentioned when they pulled 30 some corporations into 1 in 1972. There comes a time you just have to do things like that, partly because of the changing rules he talked about.

In May 1972, I purchased a dealership in Madison, WI, which had a Chrysler-Plymouth and Datsun at that time. It's now Nissan. The first couple of years weren't too good because of a poor location. We were 8 blocks from the capital, downtown Madison, and I wasn't too motivated by that. But, in 1975 we moved the dealership to a new facility on the Southwest Beltline area of Madison, and I've been there ever since.

In 1977, I got together with Gordie Boucher, a familiar name you've heard around Milwaukee. He'd been running my Waukesha dealership for 8 years. We purchased Gordie Boucher Lincoln Mercury on Highway 100 in West Allis. I stayed in that operation for about 4 years and then sold my majority interest to him as per our prearranged agreement. Since then, he has also grown very successful, adding two more stores—one in Madison and a Chevrolet store here in Waukesha—and we're still good friends.

In August 1979, however, I purchased what was known as the Jack White Ford dealership on Highway 100 in Wauwatosa. And since this is that kind of a meeting, I figure I'll share it with you because you've got to have failure along with success.

I was to find my string of business successes crumble in the next 11 months because of the oil crisis and the recession that followed in the U.S. auto business and the overall economy. I could do absolutely nothing right. And I had tremendous financial losses every month.

I was able to get Ford Motor Co. finally, after begging, to buy my assets so I could close the business down and stop the bleeding. I lost over $400,000 in that short period, and that's a lot in 11 months. After 15 years as a car dealer, I had my first taste of real failure. I was most fortunate because my other dealerships kept on making money. This one took all my time, though. I was really praying and happy that the other ones kept on cranking because I didn't give them any time. I was at the problem store all of the time, of course.

But you see that happening with big publicly held companies, where they're making money on some divisions while another might be a loser. And that's a big, big benefit of diversification, if and when you can get into that position.

I got over the Ford store and its problems during the next year or so, and concentrated on maximizing the present businesses I had.

In September of just this past year, 1985, I purchased another dealership in Racine, the Nichols Motor Co., selling Mercedes-Benz, BMW, Volvo and Subaru. That dealership promises to be an interesting experience and a challenge, as I live today. I hope to substantially increase the sales, service, and, of course, the profits. To do that, I plan to purchase land and build a new dealership complex on the west side of Racine. I'll probably do it near I-94 so there will be good access for customers coming to and from the Chicago and Milwaukee markets on I-94.

Today's economy and overall business climate appear very favorable to me. A successful multiple auto dealer has to keep tuned to many, many factors, because the success of the auto industry is determined in the United States by about nine important factors, like many other businesses; overall economic growth in our country, the inflation rate, interest rates, unemployment rates, the strength or weakness of the U.S. dollar, overall consumer confidence, political attitudes and policies from Washington, DC, regarding import taxes and barriers, our own industry marketing efforts, and, of course, pricing of the cars and trucks.

For 1986, it is quite commonly agreed by various experts that the total vehicle sales in the United States will be approximately similar to last year, at about 15 million cars and trucks. The U.S. economic growth measured by GNP should be about 3 percent, inflation about 3.5 to 4 percent, interest rates about stable, with maybe a slight decline, unemployment rates about the same, and the U.S. dollar is expected to continue a gradual weakening against other currencies around the world.

The consumer attitudes should remain strong, and the auto industry will create a very favorable effect on the U.S. economy because of the tremendous oversupply which we will experience, thereby causing a really strong buyers market. Auto advertising will reach record levels and incentives, cutrate financing, cutrate pricing, as well as dealer advertising and competitive pricing, in my opinion, will attract a record number of new car buyers into the showrooms.

The auto industry itself is changing right now right in front of us like very few industries have ever changed in the past. We're in a new era. Multibrand, multinational, multifranchise, multidealer; the success of today's multiple dealer—we call it super dealer—stems from knowing, managing, and pleasing people, and from knowing and managing cash.

There are three new buzzwords in our business this year, like many other businesses; computerization, cash management, and diversification. Those are the buzzwords for future success. The new car market will experience a new era of competition unlike anything recently seen in the auto industry. While we did 15 million cars and trucks last year, we anticipate an additional production increase of U.S. products by 7 to 10 percent.

Now, just yesterday the Japanese Government announced that their decision to hold the exports to the United States in 1986 to the same levels as 1985. That's excellent news for some, terrible

news for importers and foreign car dealers. But it's a substantial increase from what it was just 2 or 3 years ago.

There's also going to be a substantial increase in the production of U.S.-built imports. We also have Hyundai and Yugo entering the market for the first time with an estimated 100,000 to 150,000 units its first year, in 1986. In addition to that, we have a new wave of these U.S.-built imports becoming available to consumers with more cars being produced at the new Nissan plant at Smyrna, TN; a Honda plant in Marysville, OH; Toyota with Chevrolet in California; now Mazda in Michigan. Then, within the next 5 years there's even more coming from the car business. You've got a great future out there if you're a big car buyer and like to buy in volume.

General Motors is coming with Saturn, Honda with Acura, Austin Rover, Daihatsu, Suzuki, and additional models from Hyundai, and probably a few more. There is no question that the U.S. auto market is being invaded by foreign interests from all parts of the world. It's happened before in textiles, electronics, shoes, steel, and so on.

There are strong opinions, though, on both sides of the fence of the free trade issue, the balanced budget, but these other problems don't just effect the others. They effect a lot of industries. And for us, it's really interesting, very serious, but also kind of fun watching and participating in the diversification and the scrambling that's going on by U.S. manufacturers, the distributors and dealers alike.

The feeling seems to be that our auto industry has had plenty of time to watch and learn from the other industries as they give way to foreign competition. Our industry leaders and the dealers alike seem determined to remain successful by diversifying and taking advantage of the political tides and the ground rules under which we operate.

The auto industry is clearly a leading edge indicator for the U.S. economy. And it will be interesting to watch for the next few months what Korea, Czechoslovakia, South America, Brazil, Taiwan, and Europe trying to gain and increase their strength in the United States auto market.

Our 1985 Federal deficit reaching approximately $155 billion, of which the auto industry deficit alone was about half or $85 billion, it should be more interesting to see citizens act and react.

The current business in the auto industry climate is truly interesting and exciting, and I'm especially happy to be an active and aggressive part of it. I plan to make a few more acquisitions as the oversupply and the new wave of competition creates these new opportunities we've talked about today.

Naturally I realize that here in the United States, true entrepreneurs find success by recognizing an opportunity, seeking out the unique niches and windows within that opportunity, and then acting quickly and decisively. Then by maximizing the results of that action, the entrepreneur can really hit a home run.

Thank you very much.

[The prepared statement of Mr. Darrow follows:]

RUSS DARROW
1616 SOUTH MAIN STREET
WEST BEND, WISCONSIN 53095

TELEPHONE 414 338-0691

February 13, 1986

SENATE SMALL BUSINESS COMMITTEE
SUB-COMMITTEE ON ENTREPRENEURSHIP
ADDRESS TO SUB-COMMITTEE BY RUSSELL M. DARROW JR.

Good afternoon, Ladies and Gentlemen. I am pleased and honored to be with you today to discuss the exciting, important and rewarding subject of the entrepreneurial spirit in America. As you might expect, my fortunate and successful experience has caused me to be attracted to articles, stories, t.v. shows, and other real life experiences where people in this great country have started with a simple idea or dream, and through hard work, long hours, and an unrelenting commitment to succeed have achieved success, fame, wealth, and other relative measurements by which people in our society judge one another.

My story is but one small account of how success can be achieved. But in my case, I am most pleased because from the days when I was 22 years old and single, as most college graduates are about the time they are set to graduate, to the present time, I have maintained a strong degree of logic, balance, integrity, and respect in my business life, social life, personal life, and in the overall level of respect I share with my friends, business associates, employees, and their families. In other words, from the start, my objectives were not strictly economic or aimed toward status, power, notariaty, or any individual ego trip, but rather toward creating and constantly improving the life style I would have initially, I would share with my wife after that, and the quality of life my wife and I would create for our children, and their children in the years beyond. That may sound idealistic, or even hokey, but I think you should realize that over a period of 10, 15, or 20 years in a successful person's life, there are so many decisions that you are forced to make, almost daily, which can and will affect your individual future for good or for bad. I have never had long-range specific economic goals, but I have had broad but rigid and disciplined guidelines for moral and ethical behavior and social conduct so that the same American society that rewards economic success could not and will not destroy that success by lack of confidence, faith, and business support as a result of negative news coverage and/or social and economic rejection.

I started out in the automobile business by accident as I was attending college at the University of Wisconsin in Madison. And in the summer of 1960 I was purchasing my first new car. My shopping experience lead me to Heiser Ford on Prospect Avenue

on Milwaukee's East side. Somehow, I ended up negotiating for and purchasing a 1960 Ford Falcon. Two of the salesmen whom I had just met over the several days of the negotiating experience suggested that I get into the car business, since I appeared to like cars, the art of negotiating, and since Heiser never ran advertisements for sales people, but did have an opening. One thing lead to another, and I thought I would try the automobile sales business for a couple of months. It was not designed as a career decision, but instead a learning process. My father was a Milwaukee lawyer of moderate means and I had no defined career planned, nor any contacts for a post-college "foot in the door" to a great opportunity.

While at Heiser Ford, I made a firm decision to learn every single thing I could about the automobile business, and I found my youth was strongly in my favor because others would be eager to help the new, young rookie. Day after day, week after week, I become even more determined to learn and benefit from the good things and the bad things I had seen and experienced around my company and the people employed there. As I said before, the daily decisions are terribly important, and I later realized that I must have had a stronger commitment than I thought to hard work, serious learning, efficient and productive use of my time, etc. I remember my very first impression was that "salesmanship breeds laziness". During college summer jobs I had unloaded freight cars of wood and bricks for $2.50 per hour, and disliked many of those moments and hours because of the hard work. But many people around me in sales simply did not use their time to the greatest advantage, and became lazy because nobody was forcing them to work, or measuring their time every hour. I made a commitment not to fall into that trap---ever in my life. I quickly found out what I did not want to be like. At that age and at that point I realized that every single person, no matter how rich or poor, old or young, famous or private, has the very same 24 hours in every day of his or her life. The key to success is how those 24 hours are spent---on evey single day, and the results of that type of thinking and commitment will, in my opinion, separate and reward the relative few people who adhere to that plan from the vast majority of people who cannot or will not.

In December of 1965, after being at Heiser Ford for five years, I became aware of a car dealership available in West Bend, Wisconsin. The dealership was an AMC/Jeep dealership but there was also a Chrysler-Plymouth dealership which had closed two or three months earlier. I ended up purchasing the dealership and getting the Chrysler-Plymouth franchise from the Chrysler Corporation. I then let AMC and Jeep go and brought Chrysler and Plymouth into the dealership, and that was the start of my career. Since I had gotten married and my wife and I were raising two children by the time we made the decision to buy the dealership and move to West Bend, I did not have a lot of money. I needed $60,000 for the dealership, and I had to finance the dealership building

and property. I was able to round up $12,000 in cash, and I borrowed $48,000 from a major Milwaukee bank. At 25 years old, no bank wanted to talk to me, or my parents, who were willing to co-sign, or guarantee my $48,000 note. But one good friend in Milwaukee had faith in the 25 year old kid, so he, along with my parents' guarantee, got the $48,000. I leased the building until I could afford to buy it, paid off the $48,000 in 11 months, and I was on my way.

Two years later, in December of 1967, I bought my second dealership in Appleton, Wisconsin. Earlier I talked about making decisions. Back then, decisions on work ethic, free time, "how high is up", and others caused me to become bored with running one small business in West Bend, Wisconsin at the age of 25 years old, and thinking that is all the farther I would go in my life. I had no set objectives for financial success or dealership expansion, but the chemistry just seemed right for keeping on going---so I did. Appleton went well, so I jumped at another opportunity which came upon suddenly and by accident in December of 1970 when I was able to purchase another Chrysler-Plymouth dealership in Waukesha. That was a major turning point in my career, because three dealerships really create a tremendous opportunity, but also a heavy risk. Having been counseled on that, I found it necessary and wise to also create a Management Company to oversee the detail and defensive safeguards of my expanding businesses. We located that Management Company in West Bend, Wisconsin, where I am still located.

Success attracts success. That's how it was for me, and I was now 30 years old, becomming more successful, and other people would come to me with opportunities. In May of 1972, I purchased a dealership in Madison, Wisconsin, which has Chrysler-Plymouth and Datsun. The first couple of years were not very good because of poor location and many other reasons. In 1975 we moved the dealership to a new facility on the Southwest Beltline area of Madison, and I have been there ever since.

In 1977 I got together with Gordie Boucher, who had been running my Waukesha dealership for eight years, and purchased Gordie Boucher Lincoln Mercury on HWY 100 in West Allis. I stayed in that operation for approximately four years, then sold my majority interest to him as per our pre-arranged agreement. Since then, he has also grown very successful, and we are still close friends. In August of 1979, I purchased what was known as Jack White Ford on HWY 100 in Wauwatosa. I was to find my business life crumble in the next 11 months because of the oil crises and the recession that followed in the U. S. auto business and the overall economy. I could do absolutely nothing right, and I had tremendous financial losses every month. I was able to get Ford Motor Company to buy my assets after 11 months, so I could close down the business and stop the bleeding. I lost over $400,000 in that short period, and after 15 years as a car dealer, I had my first taste of real failure. I was most fortunate because

my other dealerships kept on making money, just as you see the big publicly-held companies make money on some divisions while another might be a loser. That is the benefit of diversification, when you can get into that position.

I got over the Ford store and its problems during the next year or so, and concentrated on maximizing the present business I had.

In September of this past year, I purchased another dealership in Racine, selling Mercedes-Benz, BMW, Volvo, and Subaru. That dealership promises to be an interesting experience and challange, as I live it today. I hope to substantially increase the sales, service, and of course, profits. To do that, I plan to purchase land and build a new dealership complex on the West side of Racine, probably out near I-94 so that there will be good access for customers traveling between Chicago and Milwaukee on I-94.

Today's economy and overall business climate appears very favorable to me. A successful multiple auto dealer has to keep tuned to many factors because the success of the auto industry is determined by overall economic growth in our country, the inflation rate, interest rates, unemployment rates, the strength or weakness of the U.S. dollar, overall consumer confidence, political attitudes and policies from Washington, D. C. regarding import taxes and barriers, our own industry market efforts--- and pricing of cars and trucks.

For 1986, it is quite commonly agreed by various experts that the total vehicle sales market will be approximately similar to 1985, at about 15 million cars and trucks. The U.S. economic growth measured by GNP, should be about 3%, inflation between 3½% and 4½%, interest rates at about stable with the slight possibility of declining, unemployment rates about the same, and the U.S. dollar is expected to continue a gradual weakening against other currencies around the world. The consumer attitudes should remain strong, and the auto industry will create a very favorable effect on the U. S. economy because of the tremendous oversupply which we will experience, thereby causing a strong "buyers market". Auto advertising will reach record levels and incentives, cut-rate financing, as well as dealer advertising and competitive pricing will attract a record number of new car buyers, in my opinion.

The auto industry itself is changing right now, right in frong of us like very few industries have ever changed in the past. We are in a new era. Multi-brand--multi-national--multi-franchise. The success of today's multiple dealer (super dealer) stems from knowing, managing, and pleasing people, and knowing and managing cash computerization, cash management, and diversification are the buzz words of future success. The new car market will experience a new era of competition unlike anything recently seen in the auto industry. While we did 15 million cars and trucks last year, we anticipate an additional production increase of U.S. products by 7% to 10%. But we also have the realistic possibility of

up to 10% more Japanese products, and a substantial increase in the production of U.S. built imports. We also have Hyundai and Yugo entering the market for the first time with and estimated 100,000 to 150,000 units this first year. In addiiton to that, we have a new wave of U.S. built imports becomming available to consumers with more cars being produced by Nissan at Smyrna, Tennessee; Honda at Marysville, Ohio; Toyota with Chevrolet in California, Mazda in Michigan. Then within the next five years, even more cars will be coming on stream with the General Motors' Saturn, the Honda Acura, Austin Rover, Daihatsu, Suzuki, and additional models from Hyundai--- and probably a few more. There is no questions that the U. S. auto market is being invaded by foreign interests from all parts of the world. It has happened before in textiles, electronics, shoes, steel, etc. There are strong opinions on both sides of the free trade issue just as there are on the question of balanced budget for the United States Government. But an equally interesting part of these problems as they affect the auto industry is watching and participating in the diversification and scrambling that is going on by U. S. manufacturers, distributors, and dealers alike. The feeling seems to be that our auto industry has had plenty of time to watch and learn other industries suffer or crumble as they give way to foreign competition, and our industry leaders and dealers alike seem determined to remain successful by diversifying and taking advantage of the political tides and ground rules under which we operate.

The auto industry is clearly a leading edge indicator for the U. S. economy, and it will be interesting watching the next few weeks and months as the Japanese Government announces their intentions toward maintaining a self-imposed restriction on U. S. imports, or releasing them and creating a free-for-all. With Korea, Czechoslovakia, South America, Taiwan, and Europe trying to gain and increase their strength in the U. S. auto market, and our 1985 Federal deficit reaching approximately $155 billion, of which the U. S. auto industry deficit alone was approximately half or $85 billion, it should be most interesting for all of us to see what our government, our industry leaders, our trading partners, the foreign governments, our fellow U. S. citizens (auto customers, buyers, and tax payers) act and react.

The current times are truly interesting and exciting, and I am especially happy to be an active and aggressive part of it.

61-535 0 - 86 - 7

Senator KASTEN. Russ, thank you. I just have a couple of quick questions. Let me start with Steve. You both own and operate some of your own operations, and you also are a franchise of Big Boy and Sheraton Hotels.

Do the demands of a franchise inhibit or stifle the direction in which you may go as compared to the kinds of directions, and what are the demands in a business that you, yourself, own and control?

Mr. MARCUS. It really varies from franchise to franchise. We own three franchises; Big Boy, Kentucky Fried Chicken, and then the Sheraton franchise. It's sort of a two-headed thing. On the one hand, the more they get involved in your business, the more they help you. At least that's the tendancy.

Kentucky Fried Chicken, for example, is extremely active. They flood us with all manner of materials and information and request for information. They're somewhat rigid in their guidelines about new development. But partly I think the reason they are that way is because they know that that is what makes their business successful. Partly because of the fact that they're a franchise, they rely on people who would be patronizing the franchise to develop a level of expectation of what they're going to find when they go into that business. So they can't have wide swings in quality or service delivery from one place to another.

The good franchises are always able to maintain a delicate balance so that they don't destroy the entrepreneurial instincts of the small business owner, who happens to hold the franchise, because that's mostly who they are. Some, on the other hand, offer very little support. That's not good either, because then you're not getting what you're paying for. You're paying for a business plan, and in some cases you're paying for advertising support. But if they don't get involved at all, then you don't—then you're not getting what you paid for.

The other side of the coin, though, is that if you're going to take from them—meaning take their business system from them—then you have to expect that there will be some involvement in your business, particularly if you want to deviate too far from it.

Senator KASTEN. Russ Darrow said that the three new words—and I would just say that I would think they're the words for everyone in the panel—are computerization, cash management, and diversification. Steve, you've obviously diversified into a number of areas.

What room for further diversification do you see?

Mr. MARCUS. Well, in our company, we've pretty well made a decision—and it really goes back maybe the full 50 years—is that we will stick to our past. Our own growth and our own diversification will be in fields very closely related to the hospitality, entertainment industry. I guess you might call them leisure time industries. That's how we sort of focus on it.

We won't stray very far from that at all. We think we should stay with things we know how to do. However, the essence of the entrepreneur is to recognize opportunity, and I don't think the entrepreneur ever knows when or where the next opportunity is going to come. It seems it's always just around the corner, and it's there and you're on to the next thing.

But as you perhaps are aware, we've gone from the movie business into the restaurant business and to the hotel business, and then into the motel business, each one spinning off from the others almost in accidental fashion. And it was only because the opportunity presented itself and we said well, if it's related or not, let's go.

Senator KASTEN. Russ, what room for further diversification is there in your business?

Mr. DARROW. In our business, Senator, we have diversified in one big way this last year in terms of leasing. We put out about 300, 350 additional retail leases this last year, and that is a big diversification because it's all types of cars. Many dealers are becoming big in the leasing business—if he sells one kind of car, he can lease any kind of car. And it's a big diversification because of our ability to sell a lot of cars, off lease, that we have a franchise for. So that's a diversification within our industry.

Another one, again within the industry, is diversifying as I've done with getting many different franchises. In Racine we have two Germans, a Swedish and a Japanese product, and I've got a Japanese product out at Madison, and four Chrysler stores for American, and now they're tied in with Mitsubishi. Everybody is jumping in bed with everybody else here, and this is what's happening in the international, multinational business of the auto industry. So we're going to have global cars, world cars.

To diversify outside of the industry, we also have a life insurance company that we use for helping the people that buy cars, and so on. But we have not diversified totally outside of the car industry at this point, but I look to do that primarily in real estate.

Senator KASTEN. One last question. Camille, you said that—we've been talking about risk taking and that's the heart of entrepreneurship. What led you to believe that major corporations would be willing to use your service—I'm thinking of people like American Express, other people that are included in your testimony and also that I'm familiar with personally—rather than simply use inhouse expertise?

In other words, what is it that got you to take the risk to approach them to do something that, in fact, they could be doing for themselves?

Ms. HANEY. Well, I think my initial—11 years ago my initial concept of risk taking and what I had to offer probably was different than what it is now. But then, I guess I was arrogant enough to think that they needed my help and couldn't get it anyplace else. They didn't have it inhouse because in my perspective of working in the Attorney General's Office of Consumer Protection, where we were receiving 25,000 complaints from consumers a year, I looked at these complaints and I talked to the businesses involved, or we were trying to voluntarily settle complaints, and so on.

I recognized that most businesses really truly weren't trying to rip off the consumer. There was a lack of communication or sometimes because the business got so big, the bigger the business was, the farther the real decisionmakers in the business were from the customer. I'm sure that if a customer would get to Russ Darrow and had a legitimate problem, you would see to it that that problem was resolved.

Well, sometimes with larger organizations—and that's why my clients are all very large companies—there is that distance between the corporation and the customers. So I felt that I really had something that no one else could provide.

Now I'm finding that as I've been working with large companies, they are very likely to hire us because it is easier and it's less expensive for them to hire us in a small company to do a project for them, or to work longrange on a specific piece of a business, as opposed to hiring and gearing up and getting people to do that particular project inside the business.

And I'd like to say one other thing about—we were talking about computerization and diversification. I think that computerization—they say it's the age of the computer, and so on, and we think of entrepreneurs as being Steve Jobs at Apple Computer. Well, no one in our business is really a computer software person or a real technical person in computers. But computers have allowed our small business to provide a myriad of new services to companies throughout the country. We are doing data tracking systems, we can provide for a company in New York on a daily basis a list of every piece of State legislation that's been introduced on a topic—for example, like apartheid—in every State capital in the country.

Now, that's the kind of diversification through computerization that allows us to work for very large companies, and it has allowed our company to grow.

Senator KASTEN. Let me say thank you to all of you. We've run over our time and there are additional questions. We might submit those questions to you. And I might say to the members of the audience that the hearing record will remain open for 10 days, during which time questions may be submitted to the witnesses. We will ask that they get back to the committee with responses to those questions in a timely fashion.

[Subsequent information was received and follows:]

QUESTIONS FOR RUSS DARROW

1. What advice would you have for today's students who would be interested in following your path to success?

ANSWER:

Learn as much as you can, as fast as you can with an honest to goodness feeling that any person can succeed in his future, both socially and economically, if he utilizes his god-given talents along with a knowledge and skills he/she acquires through education. After traveling throughout many countries in the world, I can confidently assure all students that the United States really is the best Land of Opportunity in the world, and people who start out in entry level jobs with a positive attitude, spirit of wanting to do better, a confidence, and a satisfactory degree of knowledge will stand out among his/her co-workers---and relatively soon will be recognized for it by his/her superiors. There are so many people who simply don't try hard enough or care hard enough on a continuous basis, and the few who clearly demonstrate their enthusiasm, etc. will be rewarded greatly. Naturally, I believe education is very important, but I also believe strongly that honest self-motivation and enthusiasm is almost more important, and somehow, a person with those qualities seems to produce better results than someone who is only "book smart".

2. It seems that most automobile dealers are content with owning just one dealership. Is it a risky proposition to expand beyond one? What motivated you to make your initial expansion?

ANSWER:

If an automobile dealer is doing a good job in his one dealership, I do not believe it necessarily risky to expand to another. Some variables include the actual franchise make and size of market. However, the most important element is PEOPLE. I will never recommend anyone to expand to a second, third, or fourth automobile dealership (or any other kind of business for that matter) without having qualified top management people ready and in place to insert in that new investment opportunity.

The defensive controls for protection of cash, receivables, inventory levels, etc. would most likely have been handled adequately by the dealer with only one point before he decided to expand. So that is my qualifier. If those things were under control, and the dealer had an excellent understanding of marketing and merchandising abilities from the "opportunity side" of automobile sales, service, parts sales, body shop, leasing and rental, etc., it would be very likely he/she would succeed in the second point.

My initial expansion was a result of my having gotten my first opportunity to own a dealership in the small community of West Bend, Wisconsin, with a population of only 17,000 people. While I liked the city, and I still live in West Bend at the present time, some 20 years later, it is a plain fact that there is more opportunity, without much more risk, in a larger, metropolitan area---at least as far as the car dealership business goes. A smaller city requires less employees to keep costs down, but those employees must be "jacks of all trades", and in the ever-growing complexities of running the business, obeying all the laws and regulations of the city, county, state, and federal laws and regulations, it is simply much harder to run a small business today than it is to run a much larger dealership. A larger dealership has more employees, and each employee has a clearer definition of his/her job responsibilities. That results in better overall defensive coverage, and much more time for each employee to try to maximize the talents for which they were hired---increasing sales and service revenues. The larger operation also creates the opportunity for promotion, which is a strong motivator for all employees starting out in the automotive dealership business.

3. In a previous question, you outlined areas of diversification in your business. What other areas do you foresee for your industry in the future?

ANSWER:

We have seen that all of the U. S. auto manufacturers (General Motors, Ford Motor Company, Chrysler Corporation, American Motors), have begun a strong and visible diversification program. By that I mean they are entering joint ventures with foreign automobile manufacturing companies for the purpose

of importing automobiles or parts, or they are getting together to jointly manufacture cars in the United States. The reasons are several:

1. The U. S. government has not set a definite pattern on the question of the federal deficit being reduced by either limiting imports into the U. S. or demanding exports to the countries exporting their products to us.

2. It is obvious that the current U. S. trade policies are opening the door and strongly encouraging more countries to "get a piece of the action" by exporting from their country into the United States---any products they can---and as fast as they can. They have much cheaper labor costs than the U. S. does in all industries, and for the most part, they are well-run companies with good dependable products.

3. The U. S. government has allowed oil price fluxuation to freely cause major swings in the size of automobiles because of the change in government positions on the MPG regulations. Therefore, at the present time, large cars, which are also more expensive and more profitable to the manufacturers, are currently very attractive to the buyers during our present economic swing, and high mileage, inexpensive models are less attractive. As you plug in the cost of producing small cars, and the profit margin is very low---especially compared to those same type of cars produced elsewhere in the world, and given the other conditions as explained above, the auto manufacturers have decided to enter these joint ventures and basically "give up" on manufacturing small, fuel-efficient cars. They are instead taking their money and diversifying by purchasing large banks, aircraft production companies, insurance companies, leasing companies, etc. They apparently feel that this diversification will be "cycle proof", and they will not suffer the next time economic and oil conditions cause us to enter a recession. At the same time, by purchasing these other types of businesses, they are actually able to play a more important and profitable role in the

oil industry by financing and insuring cars, and they can still shift that money to other industries as the need arises.

I strongly believe in the concept of free trade, and I have four import franchises to back up my position. But I also believe that I am an American first, and the United States cannot continue to get "ripped off" by countries who are not willing to give equal freedom for us to export from the United States into their country. I view the joint ventures for producing automobiles in the United States as an excellent compromise because that process retains American jobs while at the same time acquiring a quality and low priced car which heretofore has had to be imported as a completely assembled unit.

Senator KASTEN. You mentioned the Small Business Administration. The administration is proposing the elimination of the Small Business Administration. They've done that once before. But my feeling is that we should not eliminate it, and we will not eliminate the Small Business Administration. I think that we'll have a certain amount of cuts that will take place in the Small Business Administration. It's my feeling that they don't belong in the business of competing with banks. I think the guaranteed loan program will continue. I think the direct loan program is likely to be discontinued. And I will support the elimination of the Small Business Direct Loan Program.

There are other kinds of changes and savings that can be made, but I think your point is well taken, that the Small Business Administration is a positive force in this whole entrepreneurial development.

I also would say in response to Steve Marcus that, as you know, I wouldn't have been given the Guardian of Small Business Award from the National Federation of Independent Business every year that I've been in the House of Representatives or in the Senate if it hadn't been for the fact that I share your view on overregulation, and the cost of those regulations and the inhibiting kinds of atmosphere which the Government creates when it becomes an us against them kind of a situation.

There have been changes in the last few years in Washington, but we're not in any way finished with the battle. And I'm hopeful that we can continue to nurture the kind of entrepreneurial spirit which we have talked about, which is the goal and the dream that all of us share.

I want to thank all of you for participating in these hearings.

The hearing is now recessed.

[Whereupon, the hearing was recessed to reconvene subject to the call of the Chair.]

BLANK PAGE

THE ENTREPRENEURIAL SPIRIT IN AMERICA

THURSDAY, MARCH 27, 1986

U.S. SENATE,
SUBCOMMITTEE ON ENTREPRENEURSHIP AND
SPECIAL PROBLEMS FACING SMALL BUSINESS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:06 p.m., in room 428A, Russell Senate Office Building, Hon. Bob Kasten (chairman of the subcommittee), presiding.

STATEMENT OF HON. BOB KASTEN, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Senator KASTEN. The subcommittee is called to order.

Today, the Subcommittee on Entrepreneurship and Special Problems Facing Small Business is conducting its final hearing on the entrepreneurial spirit in America. During the month of February, I conducted three hearings in Wisconsin.

From Ron Simek who started the highly successful Tombstone Pizza Corp. from his modest Tombstone Tap bar in Medford, WI to Dale Smith who began selling chili from the back room of his gas station in Green Bay, WI, we learned about entrepreneurs who have recognized the potential success that could be won if they followed their instincts and took advantage of the opportunities before them.

There is a true entrepreneurial boom taking place. The entrepreneurial spirit is alive and kicking in America today as it never was before. The statistics speak for themselves.

In just the last 3 years, almost 2 million new businesses were incorporated. Small businesses generated more than 20 million new jobs in the last 10 years. In fact, for every three new jobs which have been created, two have been created in small business.

I might say that we in Wisconsin in our series of hearing found more and more people being aware of these facts also, that the opportunities were in small business, that the growth was in small business. In a number of smaller communities that we held hearings in as well as some of the larger communities such as Milwaukee, an awareness and a knowledge of small business continues to grow.

Once again, the eyes of the world are on the United States as it leads the way in creating new jobs, new opportunities, and new hopes for the future. Therefore, the eyes of the world are on our efforts in working with and creating small business.

Only in America are men and women given the freedom to adventure with ideas and to be creative, to find niches in the business world through ingenuity and innovation. Sometimes they will fail, and sometimes they will succeed, but at the very least, they have the freedom of opportunity to put their ideas to the test, and that freedom is almost limitless.

In fact, the only limits that our previous witnesses mentioned are the limits that they put on themselves, whether it be the bounds of imagination and determination or lack of the knowledge and experience needed for further development. We in Congress must guarantee that Government does not stand in the way as one of the limits on today's entrepreneur.

I recognize the role that the SBA has played in the development of new businesses, and I would like to reiterate my support for the continuation of the Small Business Administration. At a time when 9 out of 10 jobs can be found in small businesses which employ less than 100, making small business one of the major pillars upon which our economy rests, it is crucial that we give this economic sector the attention it needs to continue to thrive.

This afternoon, we are going to take another look at today's entrepreneur, how they managed to get started, where they are today, and their goals for tomorrow. First, we are privileged to have with us the Honorable Frank Swain, the chief counsel for the SBA's Office of Advocacy.

[The prepared statement of Senator Kasten follows:]

STATEMENT
BY
THE HONORABLE
ROBERT W. KASTEN, JR.
CHAIRMAN, SENATE SMALL BUSINESS COMMITTEE'S
SUBCOMMITTEE ON ENTREPRENEURSHIP

ENTREPRENEURIAL SPIRIT IN AMERICA
MARCH 27, 1986

THIS HEARING IS CALLED TO ORDER.

TODAY, THE SUBCOMMITTEE ON ENTREPRENEURSHIP AND PROBLEMS FACING SMALL BUSINESSES IS CONDUCTING ITS FINAL HEARING ON "THE ENTREPENEURIAL SPIRIT IN TODAY'S AMERICA." DURING THE MONTH OF FEBRUARY, I CONDUCTED THREE HEARINGS IN MY HOME STATE OF WISCONSIN. IN THOSE HEARINGS, WE HEARD FROM THE SMALL BUSINESS ADMINISTRATION, EDUCATORS, AND A WIDE VARIETY OF ENTREPRENEURS WHO SHARED THEIR SUCCESS STORIES WITH THE SUBCOMMITTEE.

FROM RON SIMEK -- WHO STARTED THE HIGHLY SUCCESSFUL TOMBSTONE PIZZA CORPORATION FROM HIS MODEST TOMBSTONE TAP BAR IN MEDFORD, WISCONSIN -- TO DALE SMITH -- WHO BEGAN SELLING CHILI FROM THE BACK ROOM OF HIS GAS STATION IN GREEN BAY, WISCONSIN -- WE LEARNED ABOUT THE ENTREPRENEURS WHO HAVE RECOGNIZED THE POTENTIAL SUCCESS THAT COULD BE WON IF THEY FOLLOWED THEIR INSTINCTS AND TOOK ADVANTAGE OF THE OPPORTUNITIES BEFORE THEM.

THROUGH THOSE HEARINGS, IT BECAME CLEAR TO ME THAT THERE IS A TRUE ENTREPRENEURIAL "BOOM" TAKING PLACE. THE ENTREPRENEURIAL SPIRIT IS ALIVE AND KICKING IN AMERICA TODAY AS IT NEVER HAS BEFORE. THE STATISTICS SPEAK FOR THEMSELVES:

AVAILABLE

IN JUST THE LAST THREE YEARS, ALMOST TWO MILLION NEW BUSINESSES WERE INCORPORATED.

SMALL BUSINESSES GENERATED MORE THAN 20 MILLION NEW JOBS IN THE LAST TEN YEARS. IN FACT, FOR EVERY THREE NEW JOBS WHICH HAVE BEEN CREATED, TWO HAVE BEEN CREATED IN SMALL BUSINESS.

ONCE AGAIN, THE EYES OF THE WORLD ARE ON THE UNITED STATES AS IT LEADS THE WAY IN CREATING NEW JOBS, NEW OPPORTUNITIES, AND NEW HOPES FOR THE FUTURE.

BEHIND THE NEARLY TWO MILLION NEW BUSINESSES STAND NEARLY TWO MILLION ENTREPRENEURS -- MEN AND WOMEN WHO WERE WILLING TO TAKE THE NECESSARY RISKS TO CHASE THE AMERICAN DREAM OF OWNING THEIR OWN BUSINESSES.

NOT EVERY BUDDING ENTREPRENEUR IS GOING TO MEET WITH SUCCESS. MORE THAN HALF OF THE NEW STARTS IN BUSINESS FAIL WITHIN THE FIRST FIVE YEARS OF OPERATION. APPROXIMATELY 90 PERCENT OF THOSE FAILURES RESULT FROM A LACK OF MANAGERIAL AND TECHNICAL EXPERIENCE OR THE UNDER-ESTIMATION OF THE CAPITAL NEEDED FOR SUCCESS.

BEST COPY AVAILABLE

BUT IT IS IMPORTANT TO REMEMBER THAT THROUGH AMERICAN BUSINESS HISTORY, A GREAT DEAL OF SUCCESS HAS COME ONLY AFTER SLOW STARTS OR FAILURES. IN ITS FIRST YEAR, AMERICAN EXPRESS ONLY SOLD $9000 WORTH OF TRAVELERS' CHECKS. GILLETTE ONLY SOLD 51 RAZORS AND 168 BLADES IN HIS FIRST YEAR. AND HENRY FORD'S FIRST TWO AUTOMOBILE COMPANIES WENT BANKRUPT BEFORE HE PUT TOGETHER TODAY'S FORD MOTOR COMPANY.

ONLY IN AMERICA ARE MEN AND WOMEN GIVEN THE FREEDOM TO VENTURE WITH IDEAS AND TO BE CREATIVE -- TO FIND NICHES IN THE BUSINESS WORLD THROUGH INGENUITY AND INNOVATION. SOMETIMES THEY WILL FAIL, AND SOMETIMES THEY WILL SUCCEED. BUT AT THE VERY LEAST, THEY HAVE THE FREEDOM OF OPPORTUNITY TO PUT THEIR IDEAS TO THE TEST. AND THAT FREEDOM IS ALMOST LIMITLESS.

IN FACT, THE ONLY LIMITS THAT OUR PREVIOUS WITNESSES MENTIONED ARE THE LIMITS THAT THEY PUT ON THEMSELVES, WHETHER IT BE THE BOUNDS OF IMAGINATION AND DETERMINATION, OR LACK OF THE KNOWLEDGE AND EXPERIENCE NEEDED FOR FURTHER DEVELOPMENT. WE IN CONGRESS MUST GUARANTEE THAT GOVERNMENT DOES NOT STAND IN THE WAY AS ONE OF THE LIMITS ON TODAY'S ENTREPRENEUR.

BEST COPY AVAILABLE

I RECOGNIZE THE ROLE THAT THE SBA HAS PLAYED IN THE DEVELOPMENT OF NEW BUSINESSES AND I WOULD LIKE TO REITERATE MY SUPPORT FOR THE CONTINUATION OF THE SBA. AT A TIME WHEN NINE OUT OF TEN JOBS CAN BE FOUND IN SMALL BUSINESSES WHICH EMPLOY LESS THAN 100 -- THUS MAKING SMALL BUSINESS ONE OF THE MAJOR PILLARS UPON WHICH OUR ECONOMY RESTS -- IT IS CRUCIAL THAT WE GIVE THIS ECONOMIC SECTOR THE ATTENTION IT NEEDS TO THRIVE.

THIS AFTERNOON, WE ARE GOING TO TAKE ANOTHER LOOK AT TODAY'S ENTREPRENEUR -- HOW THEY MANAGED TO GET STARTED, WHERE THEY ARE TODAY, AND THEIR GOALS FOR TOMORROW. FIRST, WE ARE PRIVILEGED TO HAVE WITH US THE HONORABLE FRANK SWAIN, THE CHIEF COUNSEL FOR THE SBA'S OFFICE OF ADVOCACY.

Senator KASTEN. We will begin, then, with our statement, and I will ask Mr. Swain to come forward. We have a witness statement from Mr. Swain. We have then a panel that will include a number of successful small businessmen as well as some experts in the overall area, and we will conclude with the president of the Small Business Development Center in Massachusetts.

Mr. Swain, we are pleased to have you with us today. Please go forward with your testimony.

I might remind all of the witnesses that their entire statements will appear in the record as if read. We are going to try to limit people's statements to roughly 5 minutes so that there will be time for a few questions and also so that the hearing will conclude on schedule, because, as you can see, Senators have a number of other obligations today. We are expecting people to be in and out of the room, but it is a complicated day because we are up against the Contra vote and also up against the recess for the Easter break.

So, we are very pleased to have you with us today. We look forward to your statement.

STATEMENT OF HON. FRANK S. SWAIN, CHIEF COUNSEL, OFFICE OF ADVOCACY, U.S. SMALL BUSINESS ADMINISTRATION

Mr. SWAIN. Thank you very much, Mr. Chairman.

I would like to congratulate you for taking the time to hold this series of hearings. As you certainly know, most often we have hearings in the context of specific legislation, but it is very useful, once in a while to drop back and look at some underlying patterns and phenomena.

My responsibility as the chief counsel for advocacy is to be aware of what is going on in the small business community and to be a voice for small business within the Federal Government. It is in that context that I make my presentation this afternoon.

To begin, I have some general remarks about the phenomenon of entrepreneurship, the sense of how we are keeping track of it, and what growth has been. Then, I have a few brief observations on policy issues. I would be happy, obviously, to take any questions.

I will not read my statement and I ask that it be entered into the record. I will summarize the relevant points.

I think the most important thing is that although entrepreneurship is getting a lot of attention here in the Congress, in the national press, among academics and media, the entrepreneurial boom has really been going on in this country. For the last 20 years, we have had a steady growth in entrepreneurship.

If we could have the first slide please, I am taking a real risk here, I know, in dimming the lights after lunch, but I won't take long.

This particular chart tracks the record of business formation as reported to the Internal Revenue Service, and compares the growth of business against growth in the population from 1955 through 1983. As you can see, the growth in the population has been on the order of 30 percent over the past 30 years. The growth in the number of businesses, by the most comprehensive measure we have, has been well above that, averaging about 45 percent.

In 1985 compared to 1955, not only are there more businesses, but there are a lot more businesses than there are more people. In other words, the population is growing and, business is growing, but we are a much more entrepreneurially oriented, a much more small business society today than we were back in 1955.

That means that we have a lot more business starts, and that that we have a lot more business failures. Every once in a while, someone issues a press release and says there are more business failures this year than in any other year. And they are right. That is like saying that there are more people dying in a large State than there are in a small State.

There is a lot of activity in the business community, but measured by the number of business tax returns files, which is obviously, by definition, our most comprehensive measure, we have had a tremendous increase over the last 30 years. There has really been no slacking back in the rate; it has been pretty constant all along.

Next slide, please.

In the last 8 years, it is important to note that the rate of business formation and the rate of business failure are always balancing each other out a little bit. The dotted red bar is the rate of entries of new businesses. The yellow bars shows the exits. For whatever reason, they stopped doing business. The small difference, the difference between entries and exits, is the net growth rate of a new business.

These rates are annual from 1976 through 1984. We have had net growth in the number of businesses over those years. It has been particularly great in the service industries. In fact, there has been business growth in every major industry sector except in retail. As you can see, there is a small reduction in the number of businesses in retail where we have had some business entries, but we have had more business exits than entries.

However, we have had growth in construction, in manufacturing, in wholesale trade, and particularly in services over the last 8 years.

The very important thing that we have found about American business society is that it is very dynamic. There are at any given time about 12 new businesses starting up, about 10 businesses closing or failing for whatever reasons, but we are left with plus 2.

Next slide, please.

One of the particular policy developments that has been most important has been the deregulation of various industries. In those industry sectors that have been deregulated, the growth of new business has really spurted ahead. As you can see, in 1980 through 1984, we showed a 12 percent total growth in all businesses, but in deregulated businesses (including security brokers, communications, non-bank credit agencies, transportation, trucking, and warehousing) that growth of new business has been 44 percent.

There has been a lot of folderol about how terrible trucking deregulation has been for the trucking industry. That is a bunch of bunk. Trucking deregulation has been wonderful for the trucking industry. It hasn't necessarily been wonderful for every trucker who was in business in 1980, but by 1984, there were 22 percent more businesses in the trucking business. Those are new businesses

started by entrepreneurs who didn't really have a chance to do that before the industry was deregulated.

The last slide, please.

Finally, the thing to remember about business, which is particularly of interest here in Washington, is that new businesses create new jobs. This slide shows employment growth; the red show large businesses; the yellow shows smaller businesses. As you can see, in every single category, job growth in small business dominated industries, whether it is for the United States, or in construction, wholesale trade, or services, has far outstripped the growth in large business dominated industries.

It confirms what you said in your opening statement, Mr. Chairman, that most of the new jobs now are coming from small firms. When we say new jobs, we are obviously talking about net new jobs; the jobs that have been lost have been subtracted.

So, whether you are looking at business starts or job growth, the economy over the long term and over the short term has been—I was going to say, has been very good to small business—but let me reverse that and say small business has been very good to the economy and has really driven the economy ahead.

Thank you for the slides. We can turn the lights back on now.

We raise several other points in our testimony, I won't review them all except to say that the current economy is particularly good for small firms and for entrepreneurs. They are looking to take a risk, and that ability to take a risk is obviously enhanced by the fact that we have low interest rates and a low inflation rate and fewer Government regulations.

It is a lot different than it was in 1980 when we had the last White House Conference on Small Business. Then people were coming in and yelling about getting the Government off our backs. We are not really hearing that so much anymore. We are hearing about some genuine problems and concerns, but people, I think, have a much firmer sense that they are in charge of their own business destiny, their future is to make or break on their own, and is less influenced by the Government.

We have to continue on that road, and I think that we have a good start. We need to keep improving things so that when people take risks and make business decisions, the business decisions are affected more by the marketplace and less and less by what we say here in Washington.

Mr. Chairman, I would be happy to respond to any questions that you have.

[The prepared statement of Mr. Swain follows:]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF CHIEF COUNSEL FOR ADVOCACY

STATEMENT OF

HONORABLE FRANK S. SWAIN

CHIEF COUNSEL FOR ADVOCACY

BEFORE THE SUBCOMMITTEE ON ENTREPRENEURSHIP

of the

SENATE SMALL BUSINESS COMMITTEE

March 27, 1986

BEST COPY AVAILABLE

Economic growth and the underlying strength of the economy are important national achievements. They are largely small business achievements. I would like to share with the Committee some important measures of the scale of new business activity and discuss government policies that affect that growth--both positively and negatively.

Increasing the number of viable small businesses is an important national goal. Achieving this goal will increase the fundamental strength of the U.S. economy because small business is the primary provider of new jobs, a major source of innovation, and an important path for upward mobility for millions of Americans.[1]

While we tend to look at the number of new business starts as a measure that is important to small business, it is crucial that we bear in mind that the real issue is the growth of viable small businesses that survive the start-up process. The number of small businesses will rise when the number of new

---

[1]In 1985, while the number of jobs increased nationwide by 2.7 percent, employment in small business-dominated industries rose by 5.1 percent and in large business-dominated industries by 0.7 percent. Where the job growth occurred is shown in Table 2.

BEST COPY AVAILABLE

businesses started exceeds the number of small businesses which are dissolved. New starts are only important insofar as they are part of the process of producing viable small businesses. Small business' demonstrated ability to generate a majority of new jobs reflects the important role of new business starts in providing new job opportunities. From 1976 to 1982 new business births added 21,776,361 new jobs to the American economy.

The number of businesses filing tax returns has increased from 11.2 million, in 1960, to 17.2 million in 1983, a 45 percent increase. The nation's population grew by 30 percent over the same period. This differential in growth rates indicates a growing tendency toward entrepreneurship among the American people (Chart 1).

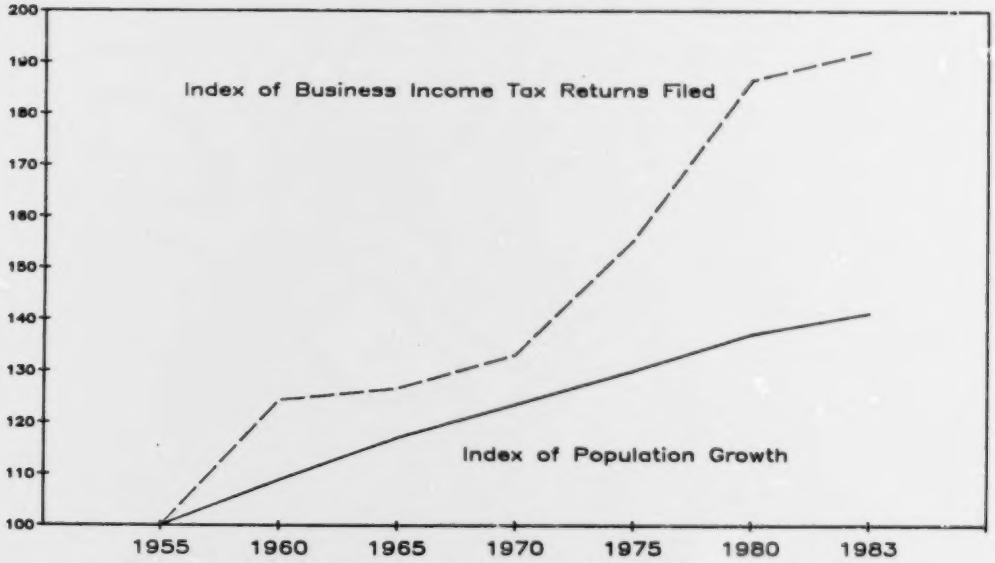
We have a very vibrant small business economy. Not only is there a net increase in the number of businesses, but an equally important phenomenon is the flows of businesses in and out of the economy. The rates of entry and exit of firms, the birth rate and the death rate of businesses are about ten times larger than the net rate of growth (Table 1).

Table 1
Annual Business Birth, Death, and Net Growth Rates: 1976-1984
(percentage changes)

	Entry Rate	Exit Rate	Net Growth Rate
All Industries	11.3	10.0	1.3
Construction	11.6	10.9	0.7
Manufacturing	8.9	7.3	1.1
Wholesale Trade	9.8	7.9	1.9
Retail Trade	9.7	10.7	-1.0
Services	14.1	10.2	3.9

Source. U.S. Small Business Administration, Office of Advocacy, Small Business Data Base, Preliminary USEEM data, November 1985.

Chart 1 Entrepreneurship in the U.S. Economy (1955 = 100)



Sources: U.S. Bureau of the Census, Current Population Reports
U.S. Dept. of the Treasury, Statistics of Income

212

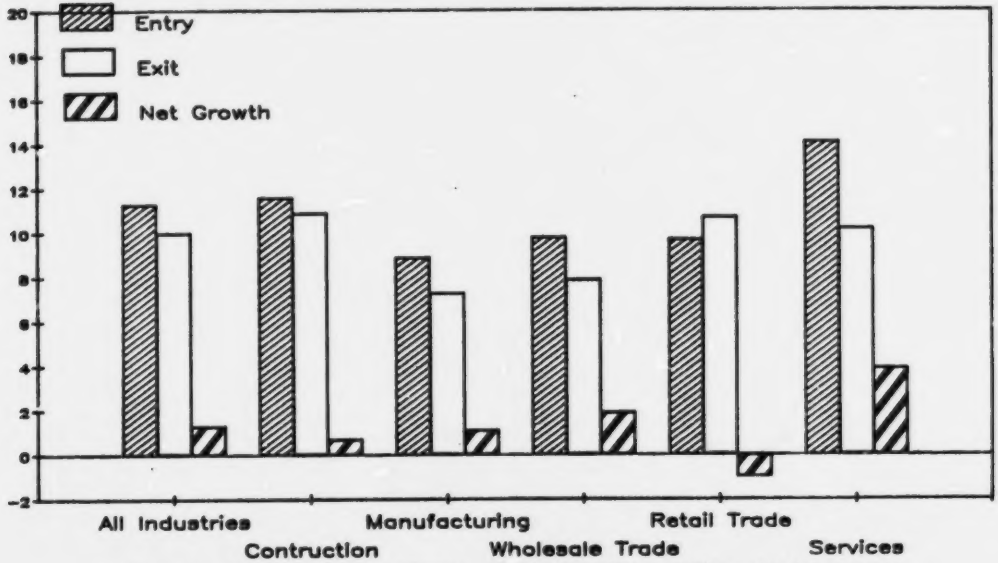
Preliminary data from the Small Business Data Base show that between 1976 and 1984 the annual net growth rate in the number of businesses averaged 1.3 percent. The annual entry rate of new businesses, however, was 11.3 percent, and the annual exit rate was 10.0 percent. The rates of entry, exit, and growth varied among industries, with service industries showing the largest growth rate and only retail trade recording a decline in the number of firms.

Focusing on the dynamics of business births and deaths emphasizes the fact that change is the only constant in the American economy. It is the regular stream of changes in the products we produce, the processes we use, and the markets we serve that have made the American economy the most successful in the world's history. Change involves risk. The essence of our free enterprise system is the privatization of economic risks. Individuals reap the rewards and bear the costs of their activities in a free enterprise economy.

An integral part of the process of economic change in the U.S. economy is the creation of new businesses. These new businesses are the dominant vehicle which bring new products and processes to the marketplace. Each new business is a risky business; the risks are financial and psychic, and they involve both the individual entrepreneur's career, reputation and family. Survival for start-ups is risky; approximately half of

BEST COPY AVAILABLE

Chart 2. Annual Entry, Exit and Net Growth Rates of Business 1976 – 1984 (Percentage Changes)



Source: U.S. Small Business Administration, Office of Advocacy, Small Business Data Base, Preliminary Linked USEEM data.

211

the new small businesses close before their fifth birthday. Of course, this also means that half of new starts survive at least five years.

Small firms are less likely to survive than larger operations. Twenty employees appears to be a crucial threshold size for achieving viability. The four year survival rate of firms with more than 20 employees is about 20 percentage points higher than the four year survival rate for firms with fewer than 20 employees.[2]

Each new business is an experiment which tests the reactions of consumers, producers, and investors against the hopes and dreams of individual entrepreneurs. These entrepreneurs will succeed, and create a viable business which survives, or they will fail and their business will disappear. The benefits of new business starts fall upon both the individual entrepreneur and the greater society.

---

[2]The State of Small Business: A Report of the President, 1983. pp. 70-71.

I believe that the dramatic contrast in U.S. job growth in the last decade with that of Western Europe (an economy of roughly similar size) derives from the strength of the small business ethic in the United States. The European members of the Organization for Economic Cooperation and Development (OECD) lost four percent of total employment between 1976 and the second quarter of 1985. The United States and Canada, the North American members of the OECD, increased employment by 24.1 percent during the same period.

Who Forms New Businesses?

Few new businesses are started with complete financial capitalization, organized business plans, and clear directions. In fact, one recent surprise has been the phenomenal growth in the number of people who consider themselves self-employed.

When a business "starts" is an ambiguous event. For many businesses it is an evolutionary process which often begins as a part-time activity carried on at home by an individual who may also be engaged in full-time paid employment. The potential entrepreneur may also be unemployed, retired, or otherwise out of the labor force. The "business" may expand, move out of the house and take on other family members or friends as "employees". But it may still continue to be viewed, by the principal, as a part-time activity.

BEST COPY AVAILABLE

In 1983 there were 2.9 million wage and salary workers who reported to the Internal Revenue Service that they also had income from self-employment. The number of these "moonlighters" more than quadrupled between 1979 and 1983. The phenomenon of paid employees who also operate a side business is a new and important one. It remains to be seen if this is a temporary adaptation to short-term changes in the economy, e.g. the 1980-1982 recession, or a permanent shift in the way business is being conducted.

Entrepreneurs do not only start new businesses. Often an established business becomes invigorated when there is a change in ownership and a significant shift in direction. Two Wisconsin Small Business Persons of the Year have created a new small business out of the fragments of existing business. For Theodore W. Batterman the kernel of a big idea was in a small bankrupt cabinetmaking company housed in a barn in Fort Atkinson. Mr. Batterman saw the commercial potential in a little noticed feature of one of the firm's products--shelving mounted on tracks. The technology once developed could reduce the space required for storage by eliminating the need for access aisles, slashing the costs of space, energy, and maintenance. In 12 years the business has become a leader in its field with a an annual 44-percent average growth in sales and 95 employees.

BEST COPY AVAILABLE

Daniel A. Merkel was satisfied that a market existed for a small orthodontic firm that could provide superior service and high quality products. He bought out a Chicago firm's orthodontic division and established American Orthodontics Corporation in Sheboygan. The company innovated a machining process for braces which minimizes wire bending by orthodontists, a direct bonding process which has become the industry standard, and a special hook used in dental surgery. Sales have increased from $82,000 to $7.9 million, and employment has reached 175. American Orthodontics markets its products in all 50 states and in 30 foreign countries and has earned the President's "E" and "E-star" awards for excellence in exporting.

New Businesses and the Individual Entrepreneur

Individual choose to start businesses for many reasons and under a myriad of circumstances. A business will be started when an individual perceives the existence of a niche in the marketplace that can be filled and which would provide a reasonable return on their efforts.

Opportunities for new businesses are created by the normal flow of change in the economy. Increases and decreases in income, changes in family size and structure, shifts in the demographic and geographic distributions of the population,

changes in the world economy, adjustments of the legal and government environments, and changes in the availability of new technologies all provide possibilities for new entrepreneurs.

The rewards and risks of small business ownership have always been a source of social mobility in this country. Recent data prepared for the Office of Advocacy by the Internal Revenue Service on women-owned and minority-owned firms demonstrate this important facet of small business growth. Between 1977 and 1983 the number of women-owned nonfarm sole proprietorships increased annually by 9.4 percent, well above the annual 4.3 percent increase in male-owned nonfarm sole proprietorships.[3] The annual growth in sales for these women-owned businesses, a better indicator of performance than the number of businesses, was almost three times that of male-operated businesses and twice the rate for all nonfarm sole proprietorships.

---

[3]Many of these businesses are started on a very small scale, and the firms are still below the threshold size which would bring them into the Small Business Data Base. Consequently, the growth rates mentioned here are not strictly comparable to the growth rates cited earlier in Table 1.

Minority business ownership, according to the latest data on black-owned businesses, has also shown rapid increases. The number of black-owned businesses increased from 231,203 in 1977 to 339,239 in 1982--a 46.7 percent increase. Minority self-employment increased, during 1975-1985, by 64 percent--well above the rate for whites and the overall rate in the economy.

New Businesses and the Economy

The creation of new businesses is one mechanism used in a free enterprise economy to effect the transfer of labor and capital into uses where they are most needed by our society. Even the possibility of a new start acts as a constant threat to existing firms and imposes discipline on their pricing and quality decisions. When a new competitor actually does appear, existing firms must make appropriate adjustments if they are to survive.

In the recent past such trends as the rise of two-earner households, the increase in life expectancy, the interest in environmental protection, and the rapid rise in energy prices have led to the development of entire new industries. Growth in these industries has been led by small business.

New businesses have been started and have come into the economy as a result of past investments in education and scientific research. Knowledge-based computer and data processing firms, as well as those in bioengineering, genetic engineering, and laser optics are among the fastest growing, innovative firms, and critical to the future of the economy.

Policies for Entrepreneurship

Policies to stimulate the continual development of new businesses are the policies that provide for a strong and growing economy. Keeping in mind the inherent risks taken by a new entrepreneur, a favorable environment is one which would not add to those risks. Stable costs for labor and other inputs, expanding disposable income, tax rates that are not confiscatory, access to capital, and the absence of artificial barriers to markets and competition are all necessary if a healthy flow of new businesses is to be assured.

The predictability and stability of general economic conditions are important to small business formation. The entry rate of businesses into the economy varies with the state of the economy. Entry rates rise when the economy is expanding and fall when the economy is declining. Between 1982 and 1984, when real Gross National Product increased by 10 percent, the annual entry rate was 12.5 percent. By contrast, during the slowdown of 1980 to 1982, when real GNP grew by less than 1 percent, the entry rate averaged 10.4 percent.

61-535 0 - 86 - 8

Table 2
Business Entry and Exit Rates, Selected Time Periods

	Annual Average Percent Change		
	Entry Rate	Exit Rate	Net Growth
1980-1982	10.4	10.2	0.2
1982-1984	12.5	9.7	2.8

Source: Small Business Data Base.

Policy tools to affect interest rates and inflation are very blunt instruments. The interaction of monetary policy, Federal borrowing, and international commerce are all important to small business. Activities to keep interest rates and inflation low and stable are good for small business. Failure in these areas is devastating to small business. Action to reduce Federal spending is likewise a particularly important small business objective. The most frequent concern I have heard expressed at 43 state meetings of the White House Conference on Small Business has been the need for action on Federal deficits.

The current economic climate is very conducive to the formation of new businesses. Low rates of inflation, falling interest rates, low levels of increase in labor and raw materials costs, and a consistently expanding economy all provide a healthy environment for new businesses to flourish.

Other policies have much more direct effects on small business opportunity. These policies affect the ability of a business to form in the first place, and equally as important, the ability of the business to continue and to grow.

Raising capital is key to any enterprise. Tax laws that discourage savings and investment, securities laws that make it difficult to reach potential investors, banking laws and bank

BEST COPY AVAILABLE

examination criteria that discourage lending to small firms are all policies that are important to the formation of new firms. Deregulation of banking has led to a host of new small business lenders, and I am optimistic on the response of freer markets for the small business borrower.

The obligation to ask permission from government to embark on a new venture stifles entrepreneurs. Regulations, regulatory licenses and permits at all levels of government could be for the eliminated or reduced in burden.

The positive effects on business starts of eliminating unnecessary regulation is evident. From 1980 to 1984, new business starts in deregulated industries increased three and one-half times faster than in non-regulated industries (44.3 percent versus 12.6 percent; Chart 3). The differential rate of growth in new business starts began with the passage of major Federal deregulation legislation. The new firms in transportation, communication, and financial services have been an important source of new jobs and new goods and services in the economy. This experience, as these industries were unshackled, is testament to the need to reinforce efforts to eliminate government controls on private risk-takers and small business opportunity-seekers.

AVAILABLE

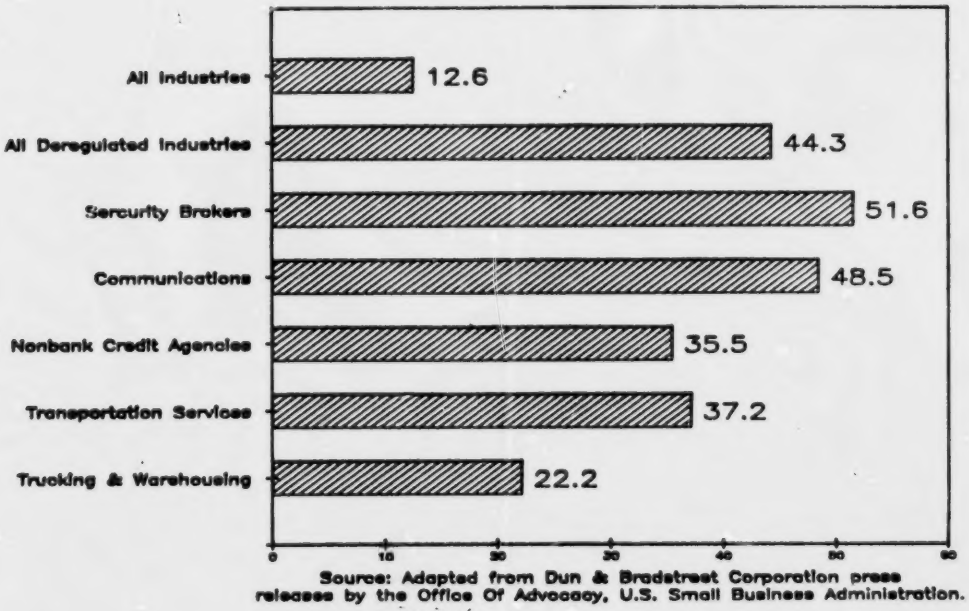
Once a business is formed, regulations and taxes can still nip a viable enterprise in the bud. The plethora of recordkeeping and reporting that accompany hiring the first employee are daunting. Tax rules that impose detailed or too-frequent recordkeeping are very real drags on small business effort.

A young firm's ability to attract and retain talented and capable employees depends of several factors-- not the least of which is its basic profitability. Beyond this, however, tax and other rules regulating the provision of various employee benefits influence the ability of small business to compete for workers. Our research shows dramatic differences in the provision of benefits by small firms compared to large firms. Much of this difference is due to the lack of profits.

Of course, many Federal policies are also important to particular types of start-up firms. Agricultural marketing orders inhibit free activity by new agricultural enterprises. Procurement procedures often discourage small firms participate in government markets. The important consideration is, I believe, that all our government's actions affect small business and particularly new businesses, more or less directly. There is no one policy, no one program that can stand as an adequate small business program. Diligence in each of the key areas I have mentioned is an essential part of small business policy.

BEST COPY AVAILABLE

Chart 3.
Increase in Business Starts 1980 — 1984
(Percentage Increase)



Source: Adapted from Dun & Bradstreet Corporation press releases by the Office Of Advocacy, U.S. Small Business Administration.

226

206

Our young people, in their elementary schools, high schools, colleges and universities should be shown that entrepreneurship should be considered as a serious career choice. Much can be done by state and local governments, public and private schools, trade associations and business groups to "turn-on" our young people to business, entrepreneurship, and our free enterprise system.

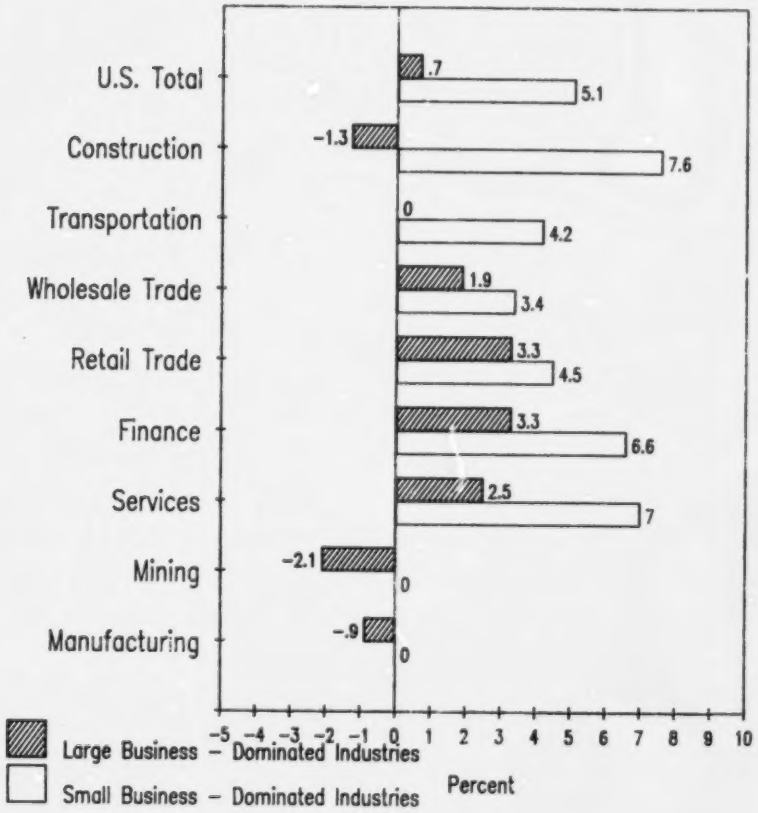
The phenomenon of entrepreneurism can only grow with political and economic freedom. The risk taker must foresee the opportunity for rewards, financial as well as personal. Government policy must encourage the overall economic conditions of low inflation, low interest rates and growth that tempt the entrepreneur to take the risk and start a business. As important, government must do no harm, must keep regulatory and tax policies from discouraging growth. Most importantly, our national leaders whether in government, business, media or education, must not overlook the unique energy and contribution of the entrepreneur. Debating the effectiveness or the affordability of certain small business programs is important. But whatever the result of those debates, we cannot permit any shirking of interest in the entrepreneur.

For many years, intentionally and unintentionally, government has put many barriers in the way of entrepreneurs. We must continue our extra efforts to clear away these obstacles and work as hard for the entrepreneur as he and she work for the nation.

BEST COPY AVAILABLE

Percent Change in Employment in Small Business–Dominated Industries versus Large Business–Dominated Industries by Selected Industry Division, December 1984–December 1985

Chart 4



BEST COPY AVAILABLE

Table 3
Employment Changes in Selected Small Business Dominated Industries, 1985

	Percent Change in Employment
Total, Small Business-Dominated Industries	5.1
Fastest Growing Industries	
Radio, T.V., & Music Stores	15.4
Computer & Data Processing Services	14.2
Credit Reporting & Collection	13.7
Sanitary Services	11.5
Masonry, Stonework, & Plastering	11.3
Carpentry & Flooring	11.2
Engineering & Architectural Services	10.0
Real Estate Agents & Managers	9.9
Mailing, Reproduction, Stenographic	9.2
Nonresidential Building Construction	9.2
Slowest Growing Industries	
Intercity Highway Transportation	-4.4
Liquor Stores	-2.3
Taxicabs	-2.1
Chemicals & Allied Products, Wholesale	-0.8
Nonstore Retailers	-0.7
School Buses	0.6
Pipelines, Except Natural Gas	0.0
Hardware Stores	0.5
Public Warehousing	0.6
	0.9

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, various issues.

Table 4
Change in the Number of Enterprises by State, 1982 - 1984

Region/State	1982	1984	Percent Change 1982-1984	Rank
U.S. Total	3,524,135	3,729,465	5.8	
SBA Region I, Total	198,768	205,899	4.1	
Connecticut	53,323	56,321	5.6	18
Maine	16,647	16,727	0.4	43
Massachusetts	87,495	91,853	5.0	20
New Hampshire	15,636	15,924	1.8	38
Rhode Island	16,697	16,925	1.4	40
Vermont	8,970	9,153	2.0	37
SBA Region II, Total	416,664	427,684	2.6	
New Jersey	121,737	130,033	6.8	13
New York	294,927	307,651	4.3	28
SBA Region III, Total	333,648	349,081	4.6	
Delaware	6,194	6,809	7.5	9
District of Columbia	11,926	12,485	4.7	25
Maryland	57,553	62,529	8.6	6
Pennsylvania	167,041	172,242	3.1	32
Virginia	68,801	72,825	5.8	17
West Virginia	20,133	20,191	0.3	47
SBA Region IV, Total	544,635	579,708	6.4	
Alabama	45,223	48,348	5.0	21
Florida	174,823	191,916	9.8	5
Georgia	78,261	83,939	7.3	10
Kentucky	48,552	48,893	0.7	41
Mississippi	29,134	30,521	4.8	22
North Carolina	73,303	76,837	4.8	23
South Carolina	37,631	39,885	6.0	15
Tennessee	59,698	62,334	4.4	27
SBA Region V, Total	661,937	697,787	5.4	
Illinois	175,703	186,307	6.0	16
Indiana	70,697	73,233	3.6	30
Michigan	123,046	131,923	7.2	11
Minnesota	70,665	74,362	5.2	19
Ohio	148,148	155,243	4.8	24
Wisconsin	73,678	76,719	4.1	29
SBA Region VI, Total	413,088	451,765	9.4	
Arkansas	35,072	34,735	-1.0	50
Louisiana	59,518	64,393	8.2	7
New Mexico	19,479	20,745	6.5	14
Oklahoma	56,980	59,625	4.6	26
Texas	242,039	272,267	12.5	3
SBA Region VII, Total	202,099	204,297	1.1	
Iowa	47,435	47,223	-0.4	49
Kansas	43,984	45,216	2.8	33
Missouri	80,905	81,269	0.4	45
Nebraska	29,775	30,589	2.7	34
SBA Region VIII, Total	133,605	141,266	5.8	
Colorado	55,920	62,285	11.4	4
Montana	17,611	18,202	3.4	30
North Dakota	12,158	12,442	2.3	35
South Dakota	12,939	13,292	2.7	34
Utah	24,453	24,611	0.6	42
Wyoming	10,524	10,554	0.3	48
SBA Region IX, Total	476,877	510,057	7.0	
Arizona	39,904	44,938	12.6	2
California	406,828	434,971	6.9	12
Hawaii	15,909	15,649	-1.6	51
Nevada	14,236	14,499	1.8	39
SBA Region X, Total	142,814	150,801	5.6	
Alaska	8,219	10,330	25.7	1
Idaho	16,508	16,595	0.5	44
Oregon	48,521	48,698	0.4	46
Washington	69,566	75,168	8.1	8

Note: State tabulations for 1982 and 1984 may differ from previous State totals due to data revisions.

Source: U.S. Small Business Administration, Office of Advocacy. Small Business Data Base based upon preliminary unpublished 1982-1984 USEEM Data.

AVAILABLE

Senator Kasten. Thank you. I just want to make a brief comment and then one question before we go on to the other witnesses.

You mentioned the White House Conference. If you look back at the wish list that came out of the last White House Conference, it pretty much dealt with a large number of those issues. In another capacity, I have been working on liability insurance for the last 4½ or 5 years, and that is one issue that I think is going to end up being at the very top of the list for this next White House Conference group, because a lot of the issues with regard to access to capital and other kinds of issues we seem to have dealt with—not through the Government but primarily through the private sector.

I want to ask you a question about loan pooling, because it is an issue that we have been working on in Wisconsin and in other places. The Small Business Administration, as you know, recently instituted loan pooling agreements with selected banks, including, in Wisconsin, the 1st Wisconsin National Bank of Milwaukee.

Do you foresee these loan pooling agreements as a gradual withdrawal on the part of the Small Business Administration from making its own loans?

Mr. Swain. Well, there are several reasons why we think the loan pooling agreements are a good idea. I would congratulate the Wisconsin banking community, particularly those participating banks, for being among the more aggressive in taking part in that program.

There are two reasons to make a loan pool. One is to increase liquidity for the bank so that the bank is more tempted to make a loan to small business. When a bank realizes that if they need to, they can get rid of a loan, they can turn it over to a larger handler of the money on the secondary market. Obviously, another reason is to get the investment community as a whole more interested in holding investments in small business paper.

We think the more liquid we can make those investments and the more comfortable we can make the investment community and the banking community in making loans to small business, are definitely steps in the right direction.

Obviously, if this year's budget proposal is enacted, there won't be any more loans to pool after October 1. But when the loan pooling agreement was first passed by the Congress, the obvious effect of it was to increase the liquidity of a small business guaranteed loan to encourage more banks to make guaranteed loans to small business.

Obviously, the idea of a guaranteed loan is that you establish a good banking relationship with a small business client, the business does well, and the next time they come back they don't need a Federal Government guarantee; they can do business on their own straight up with the bank.

Senator Kasten. Thank you very much. Mr. Swain, we thank you very much for your testimony.

Mr. Swain. Thank you, Mr. Chairman. If you would allow me, I would like to congratulate you on your work on product liability insurance. It is probably the number one issue in terms of emotion at all of the White House conferences. If we had as much effort on the part of the Congress as you have put into it, we would be a lot

further along at this time. We hope that the White House Conference can help bring some further action on that.

Senator KASTEN. Thank you. I appreciate your comments.

Our next witness is Dr. John Kao, assistant professor of business administration, Harvard University.

Dr. Kao, welcome. We are happy that you are here today, and we look forward to your testimony.

STATEMENT OF DR. JOHN J. KAO, ASSISTANT PROFESSOR OF BUSINESS ADMINISTRATION, HARVARD UNIVERSITY, CAMBRIDGE, MA

Dr. KAO. Good afternoon, Mr. Chairman and members of the subcommittee.

First of all, I want to say on behalf of my colleagues at Harvard Business School that we are honored by your invitation to participate in these discussions, recognizing their importance, and hope that our experience may add to the other comments that you will be reviewing over the afternoon.

In the interest of being efficient, I want to address my remarks to four questions. I want to talk about what is entrepreneurship; second, can it be taught; third, what is Harvard Business School doing in this field, particularly over the last 3 to 4 years; and, finally, what are some issues for further exploration.

My colleagues and I have viewed entrepreneurship as a definitional challenge. One writer in this field calls entrepreneurship a heffalump. If you remember your Winnie the Pooh, the heffalump was a large beast crashing around in the undergrowth, obviously very important, that many people claimed to have caught sight of but couldn't identify in terms of particular characteristics.

The question of definitions, is complicated by the fact that entrepreneurship is very much part of the grain of American society and values going back to Emerson's essay on self-reliance and encompassing a human species including everyone from Andrew Carnegie to Steven Jobs. Entrepreneurship is also an emotional issue in the sense that people look to it as a source of hope, a cause, and a path to renewed competitiveness for our country.

It is also looked at through generational lenses, particularly by baby-boomers as being a new kind of career path opportunity and a new path for self-actualization. Enterpreneurship for some extends the echoes of the 1960 into the corporate environment of the 1980.

For the Howard Business School Enterpreneurship Interest Group; entrepreneurship is not just self-employment or small business. We look at it very much as a set of management attitudes and approaches which involve the ability of both individuals and organizations to perceive new opportunities and to act on them without regard for the of resources they have under their immediate control. In this way, we look on it as a generic topic relevant to large organizations seeking to be more innovative and "entrepreneurial" as well as organizations in the public sector.

The second question, is it teachable, I think relates to the question of whether entrepreneurs are made or born. Certainly, you can teach people in art class how to mix paints, but you can't teach somebody how to be Picasso. We have come to the conclusion at

Harvard Business School that there are a variety of skills, techniques, and powers of observation which can be taught to increase the likelihood that people will be better positioned for an entrepreneurial career and that their expectations will be managed. A hazard lies in romanticizing the notion of the entrepreneur without thinking critically about what that career choice implies.

Third, what has Harvard Business School done in this area? It is important to note that our work both in terms of teaching and research, extends back to 1947. But it is really in the last 4 years that its pace has accelerated. Presently we have nine full-time faculty members engaged in entrepreneurship research and teaching.

A variety of new courses have been developed, including "Entrepreneurial Management" examines the process of starting new ventures; including "Entrepreneur Finance" which examines the issues of financing new ventures as a way of creating value for the individual and society; "Entrepreneurship, Creativity and Organization which looks at the human and organizational issues of entrepreneurial ventures. We also have courses in real property management; and several options which provide students with practical, field-based experience. I think that it is important to note that the students engaged in entrepreneurship study come from our second year, the elective year, of the Harvard MBA curriculum.

The demographics of our students may also be of some interest to you. There are approximately 750 students in each class, and this year, about 500 students were enrolled in entrepreneurship courses of one kind or another. In fact, enrollments were at a level of 1,400, suggesting that the average Harvard MBA was taking about two entrepreneurship courses. In addition, enrollments in field-based practicums numbered some 140.

It is also interesting to note the data on what happens to our alumni. The typical impression is that our alumni go off, work for and climb ladders in large established Fortune 100 companies. The truth is actually the reverse.

A large, and increasingly large, percentage each year post-graduation of our alumnae wind up self-employed, and about a third of HBS alumnae report that they work for companies with fewer than 100 people. So, the topic of entrepreneurship at HBS has, in a sense, been accented by these career paths.

As a statement of philosophy, we have come to find that the case method of instruction is relevant for teaching entrepreneurship because it is in a sense, an inductive method. It looks to generate principles out of experience and not trying to a priori figure out what "the rules" are because they are modified by the experience of every entrepreneur and every entrepreneurial organization.

In conclusion, this work and these comments suggest that there is a massive agenda to be carried out in terms of creating appropriate teaching materials for audiences of students which range from the primary school level to the continuing education and retraining levels which have became such a pressing need.

Such course development needs to be based on a solid foundation of research which, among other things, is mindful of the subtle distinctions between small business and entrepreneurial business which we don't view as being the same although they overlap. Finally, tremendous opportunities exist for alliances between the

public and the private sector in terms of furthering such teaching and research directives.

Again, we appreciate this invitation. If you have any questions, I would be happy to respond.

[The prepared statement of Dr. Kao follows:]

BEST COPY AVAILABLE

Summary of Testimony
To
The United States Senate Subcommittee on Entrepreneurship

by Dr. John J. Kao
Assistant Professor
Harvard Graduate School of Business Administration

March 27, 1986

Topic: Entrepreneurship Teaching and Research at the Harvard Business School

1. Overview

The development of entrepreneurship teaching and research at HBS has been a venture in itself.

It has involved considering our mission as an institution. We are a school of business administration, training general managers, a large number of whom wind up being entrepreneurs. See Exhibit 1 - Entrepreneurship, What It Is and How To Teach It, Exhibit 2 - The HBS Bulletin, Volume 60, #1, February, 1984, Exhibit 3 - Report to Dean John McArthur on the Status of Entrepreneurship at the Harvard Business School, and Exhibit 4 - "The Harvard Business School, Business Week, March 24, 1986.

Entrepreneurship involves an important problem of definition.

> It is part of American culture; an archetype.
> Entrepreneurship is an emotional issue for many people.
>
> Entrepreneurship is not just self-employment.
> It is not just small business.
> It is not just the "me" generation.

We, at HBS, see entrepreneurship as a management approach which involves the ability of individuals and organizations to perceive and act on opportunity regardless of the resources which they control. See Exhibit 5 - A Perspective on Entrepreneurship.

BEST COPY AVAILABLE

Viewed in this fashion, entrepreneurship is also an issue for large and established companies. See Exhibit 6 - Note on Entrepreneurship in Established Companies and Exhibit 7 - HBS case American Express Travel Related Services Company.

In addition, it can also be relevant to public sector concerns. See Exhibit 8 - The Social Entrepreneur.

2. Is It Teachable?

Entrepreneurs cannot be made, but they can be helped to develop.

Techniques, skills and powers of observation can be taught. Education can help with self assessment and the recognition of common problems. The probability of success can be increased, and the possibility of failure minimized. Expectations of an entrepreneurial career can also be managed.

3. How Can It Be Taught? The HBS Experience

Entrepreneurship does not represent a mature body of theory. It demands skills new to much of the traditional "big-business" environment. See Exhibit 9 - Entrepreneurship and the Changing Business Paradigm and Exhibit 10 - Managing the Paradoxes of Entrepreneurship. Teaching entrepreneurship involves a constant search for new methods and for knowledge based on empirical research. See Exhibit 11 - Capital Market Myopia.

Entrepreneurship courses have existed at HBS since 1947, and research at least since the establishment of its Research Center on Entrepreneurship History in 1948. Teaching and research efforts in this field have expanded greatly at HBS during the last four years.

HBS entrepreneurship courses now include:

Entrepreneurial Management
Entrepreneurship, Creativity and Organization
Entrepreneurial Finance
Real Property Asset Management
Field Studies in Entrepreneurship

BEST COPY AVAILABLE

Field Studies in Real Property
Independent Research Reports

See Exhibit 12 for course summaries.

As an example, the Entrepreneurship, Creativity and Organization framework includes the following topics:

Where do new ideas come from?
What characterizes the person who makes things happen?
Where does that person get leverage?
- Partnerships
- Teams
- Creating new organizations

How do mature companies sustain entrepreneurship?

See Exhibit 13 - Entrepreneurship, Creativity and Organization course overview note and Exhibit 14 - The Psyche of the Entrepreneur - New York Times Sunday Magazine, February 2, 1986.

In 1985-86, 500 HBS students were enrolled in elective courses on entrepreneurship. This amounted to roughly 65% of the second-year student body. Enrollments in entrepreneurship courses totaled 1400. Students involved in practical field work numbered some 140. See Exhibit 15 - Statistical Analyses.

Numbers of HBS graduates starting businesses - Over 1/3 of HBS graduates report working for companies with less than 100 people. An increasing percentage of HBS alumni become self-employed with each year that elapses following graduation. See Exhibit 16 - Who Are the Harvard Self Employed?

Value shifts and attitude changes in the 1980's and their influence on the "entrepreneurial spirit of America"- See Exhibit 17 - The Corporate New Wave and Exhibit 18 - Note on the Entrepreneurial Milieu.

4. Recommendations: The Role of Education and Government

Entrepreneurship may resist systemization.

Nevertheless, educational and governmental institutions can encourage teaching, research, and course development.

Priorities include:

Creating and disseminating quality teaching materials.

Providing educational opportunities at all levels

- Primary and secondary education
- Higher education
- Retraining programs
- Corporate and institutional continuing education
- Public sector "entrepreneurship" courses.

Generating a knowledge base through research. Sharpening our understanding of individual and organizational differences between "small" vs. "entrepreneurial" business. Exploring their respective impact on such policy-related areas as job creation.

Developing teaching careers in entrepreneurship.

Developing new alliances between the public and private sectors, i.e. generating faculty research opportunities and encouraging the development of new kinds of venture incubating alliances and institutions.

Senator KASTEN. Thank you.

Let me just pick up where you just ended. There is a lot of interest today in Wisconsin and, I think, around the country in educational institutions encouraging the development of new businesses. Advocacy roles by entrepreneurs are being encouraged, and we are seeing, at least in Wisconsin, an effort to develop them in these incubator projects.

Do you have any of these incubator projects at Harvard and do you see this as a kind of a permanent wave in the future?

Dr. KAO. Candidly, Senator, I think that Harvard University is a big incubator for many groups. It is an incubator for students, and for faculty members. It is the kind of place where ideas match with people and with opportunities to produce new kinds of ventures. I think what we will hear from some of the student entrepreneurs later on will testify to that as well.

I think incubators are very interesting because they involve certain economies of scale by not having to reinvent the wheel 600,000 times a year in terms of leadership, organizational and bookkeeping skills, and so on.

Senator KASTEN. You know, a common place to get the copying machine—right down to the basics in certain places in Milwaukee coming off of the extension school, UWM Milwaukee, some other kinds of places. There are all sorts of different kinds of levels of grouping together. But at Harvard, do you have specific little businesses that are starting? I understand what you mean and I agree with you that Harvard is one big incubator.

Dr. KAO. We don't have a formal incubator program as such, but we do encourage students to get involved in starting businesses in a subtle and indirect way. That is, we have various recognition programs; some of which are established by students or alumnae, and some of which are established by the faculty for people who may have started entrepreneurial activities while in the MBA program.

Certainly, the informal old-girl/old-boy network of Cambridge is one which allows people to combine ideas, capital, and resources in a very handy way, but in terms of a formal program, no.

Senator KASTEN. Let me ask one other question. We in Wisconsin are right now struggling with the idea of faculty members participating in businesses for profit and the difficulties in terms of sharing the rewards of those small businesses. I think that Harvard and MIT and some other schools in your part of the country have gotten ahead, and it is possible now that you have people who are investors, entrepreneurs, part-time workers and, at the same time, almost full-time faculty members. It is kind of a win-win-win situation.

We are struggling in a couple of genetic engineering cases with people who are not quite sure whether the work that they are doing, because it is basic research or very close to basic research, is really the property of the government, the property of the University of Wisconsin, or the property of the little business that they have started out with now on the beltway or on the way to Middleton, WI.

Could you just comment on how that is working, not particularly for the Business School, but maybe more generally for the group of academia in your particular geographic area.

Dr. KAO. The notion of conflict of interest is a rather complicated one. It comes from a long history of academic values. The notion that "scholarship" or "academics" should blend their concerns with commerce has traditionally been something which many people are allergic to.

One of the great things about having a porous boundary between academia and the rest of the environment, as you point out, is that the opportunities for useful interaction in the interest of new businesses are enormous. If you look at Europe or Japan, for instance, one of the great problems is that academic talent and technical knowledge represented by faculty members is locked up, literally, in the ivory tower.

Senator KASTEN. Some of them are still locked up in Madison, WI. You don't have to go all the way to Europe.

The point is that you have been able in Cambridge or at least at Harvard to get that kind of interaction. That is what you are saying.

Dr. KAO. Absolutely. I would not feel comfortable about researching or teaching in this field if I were not engaged in practical activities as well, and I think that is the view of my colleagues. Now, balancing that with the traditions and ethics of an academic career are issues that we are sensitive to on daily basis, but we are happy to have the freedom.

Senator KASTEN. I thank you very much for your testimony and for taking part in these hearings.

Dr. KAO. It is my pleasure.

Senator KASTEN. Thank you very much.

Our next panel includes Mr. Harnish, Ms. Merritt, Mr. Dipert, and Mr. Idzik. Let me just ask the group of you to come forward.

Our first witness who will testify on this panel is Mr. Verne Harnish, director of the Association of College Entrepreneurs at Wichita State University, Wichita, KS. Mr. Harnish.

STATEMENT OF VERNE HARNISH, DIRECTOR, ASSOCIATION OF COLLEGE ENTREPRENEURS, WICHITA STATE UNIVERSITY, WICHITA, KS

Mr. HARNISH. Good afternoon, sir.

Before I get started, one of the things that I noticed is that today is the anniversary, back in 1912, when the Japanese first sent over DC's cherry trees. Little would one guess that those trees would be the first of many products that they would end up bringing over to the United States.

Also, I do want to congratulate Dr. Kao on that great cover story in Business Week on the Harvard Business School; and some of the things that occurred just this last week. I think it was significant.

What I wanted to kind of pass on today is to share with you some experiences that we have had from being out in the young entrepreneurs' marketplace for about 3 years. What we have seen is that probably for the first time in 100 years we have experienced an explosive interest in entrepreneurship among the young people in the United States. I am sure people have talked about the impressive growth in the number of new companies that have been started.

One of the things we have noted is that one-third of all the companies being started are being started by people age 30 and under. So, no doubt the young people are——

Senator KASTEN. One-third?

Mr. HARNISH. One-third of all the companies that are being started. So, if you figure in proprietorships and partnerships, we are guessing that about three-quarters of a million young people age 30 and under are getting companies started this year. So, no doubt it is an impressive number and one that we are watching.

Also, of course, we received some of our guidance from John Naisbitt, whose book, Megatrends, has called this the decade of the entrepreneur and has pointed out that when we have certain changes in the economy, it is the prime time for young entrepreneurs to take over. We are convinced that they are going to go ahead and take this through this transition.

Also, I might note the latest Rothman and Lichter survey of business and media attitudes shows that whereas in the sixties and the seventies, I would say, our leadership among the young people was maybe social or political in nature, today the young entrepreneur is emerging as the informal leader of our generation. They are the "big" men and women on campus.

So, we are looking forward to great leadership not only from an economic standpoint—because again what is unique about this particular time period is that young people are accumulating wealth which rivals the accumulations of wealth by the Rockefellers, the Carnegies, and the Mellons—but we believe that we are in for an era of great future philanthropy from these young people. I also think there is a new era of statesmen and stateswomen in the political process and the political arena. I think that this will be interesting to watch.

One of the things I am always asked is what happened to the young people of the sixties and seventies because they weren't supposed to like business and be in favor of these kinds of activities. We point out to the media that when we visit with the young people, Senator, they have really not changed at all. They still have a need to be independent. That hasn't changed. It is a time when they are leaving the nest.

And they always have disliked what I call "creativity-thwarting" bureaucracies. Sometimes we call those governments, sometimes we call those universities, and sometimes we call those big businesses. But that has not changed.

Probably the third thing is that young people are survivors.

So, you take those common characteristics of independence, creativity, and being a survivor, and you put them in this new environment; and entrepreneurship is born.

Some other factors have led to that. No. 1 is the tightening of the economy. Good jobs are a little tougher for young people to get out there. So, I think the natural response is if you can't get a job, make a job. I think that has been a good response.

No. 2 is the shift into the service economy, and is significant mainly in what it has done to the ease of entry for young people to get into the marketplace; literally with $50 and a telephone. You can begin a business in your apartment or dorm room and literally

grow that business to $.5 million or $1 million company that we is run of those very small spaces.

No. 3 is college tuition. It has gone up. Some aid has gone down. Some may see that as negative, but that has caused some of the young people to say, "Hey, I am short on cash; let's solve that problem." It has made them very entrepreneurial.

Last, you cannot discount, I think, Steve Jobs and Steve Wozniak for being able to show America that a couple of 20-year-olds, in this case 22 and 24, could build a $2 billion company; called Apple Computer; by the age of 30. They showed all of us and they provided some role models for us.

So, the environment has changed and the young people haven't. When you mix those together, out comes entrepreneurship.

This has allowed the Association of Collegiate Entrepreneurs to capitalize on the young entrepreneur movement. We ourselves have seen a tremendous amount of growth. We got started about 2½ years ago in the summer of 1983 at Wichita State University, with a local group. We saw a great interest, so we marched on to Boston, Professor Kao's area, and we met, I think appropriately, in the basement of a Chinese restaurant in Harvard Square. We pulled together some young people from Harvard, and Dartmouth and MIT.

They got together around a table and said "Hey, I didn't realize we lived within a mile of each other." One guy had his own software company, one his own electronics firm, one a video production firm. They decided to get together on a more regular basis. That was the birth of ACE.

In 1984, we held our first conference at MIT. The founder of Wendy's, the founder of Pizza Hut, Senator Bob Dole, are just a few of the many people that were involved in the launching of that first conference that saw 60 universities from 24 States come together.

In Dallas, in 1985, we saw a little over 200 universities, 40 some States, and 12 countries involved. We just finished in Los Angeles, and we are happy to say that we are now working with around 320 universities, all 50 States and more than 20 countries. Again, this has all happened in a very, very short period of time—around 2 years. So, the growth has been phenomenal for us.

ACE's mission——

Senator KASTEN. I am going to have to ask you to summarize now, because your time has expired.

Mr. HARNISH. I am sorry. I didn't realize.

Senator KASTEN. We are trying to work with roughly 5 minutes for each of the panel members, and then there will be time for questions and further discussion.

Mr. HARNISH. OK.

There are three things young entrepreneurs lack: credibility, experience, and networks. It is those three things that ACE has gone to the marketplace with and with an expenditure of only $65,000, in 2½ years. We think we have been able to do phenomenal things.

Future things include a Chicago conference in 1987, and a D.C. conference in 1988. We are going to Japan for a 1-day conference. We have trade missions, a business plan contest, and we have put a 20-minute film together for elementary and secondary school kids.

Later on, we can get into some of our thoughts that might be relative to the Government's role or nonrole in the young entrepreneur movement.

[The prepared statement of Mr. Harnish follows:]

BEST COPY AVAILABLE

ACE
ASSOCIATION OF COLLEGIATE ENTREPRENEURS

CENTER FOR ENTREPRENEURSHIP
WICHITA STATE UNIVERSITY
WICHITA, KANSAS 67208
(316) 689-3000

TESTIMONY BEFORE THE UNITED STATES SENATE
SUBCOMMITTEE ON ENTREPRENEURSHIP
March 27, 1986

THE YOUNG ENTREPRENEUR MOVEMENT

It has been nearly a century since the United States has witnessed the kind of explosive interest in entrepreneurship we see today among our nation's young people. With one-third of all new businesses being created by young people age 30 and under, the responsibility for the five-fold increase in yearly new business start-ups we've seen over the past decade is shared by the youth of our nation.

John Naisbitt, author of Megatrends notes that "the transition times between economies are the times when entrepreneurship blooms...we are now in such a period." As they were when our nation traded its agrarian economy for an industrial one, no one is better positioned than our naion's young entrepreneurs to successfully and swiftly guide our nation through its transition from an industrial-based to an information-based society. Moreover, there are strong indications that after nearly a century the young entrepreneur is again emerging as the world's role model and opinion leader (note the recent Rothman and Lichter survey of business and

BEST COPY AVAILABLE

media attitudes), accumulating the kinds of wealth and freedom at an early enough age to not only wield significant economic power, but to support substantial future philanthropic activity and a new era of statesmenship (and womenship) within our political ranks.

One question consistently asked by the media is "what happened to the student movement of the 60's and 70's and why, now, the shift toward business and entrepreneurship by young people?" In answer, we note that it's not the students who have changed so much as has the environment in which they operate. The desire to be independent, the freedom to express one's self, a dislike for creativity-thwarting bureaucracies, and an uncanny ability to survive are traits of our youth that are not soon to change. Only today, the environment is such that entrepreneurship provides a "best way" for young people to express their independence and creativity. Specific environmental changes supporting this movement include:

* A tightening of the economy resulting in less "good" jobs for young people than were available a decade ago--if you can't find a job, make one!

* The major shift in our economy from an industrial to service based economy. With $50 and a telephone, you're in business. In addition, the youth are equally, if not more, knowledgable about certain new growth industries. Relative ease of entry.

* Specific to students, an increase in college tuition coupled with cutbacks in financial aid has heightened students' needs to generate cash flow!

* And the emergence of prominent role models--the impact of Steve Jobs and Steve Wozniak in showing our nation that two young people can create a $2 billion computer company by

age 30 cannot be discounted.

Thus, given the environment, entrepreneurship is simply the present manifestation of our youths' continual desires for independence and freedom to be creative.

Benefitting from this growing interest in entrepreneurship have been colleges and universities which offer courses in entrepreneurship and small business managment. Up from just a handfull a decade ago, today almost 300 colleges offer some kind of course for the young-minded entrepreneur. Equally benefitting from the growth has been the Association of Collegiate Entrepreneurs (ACE).

HISTORY

The Assocation of Collegiate Entrepreneurs started as a local student group at Wichita State University in the summer of 1983. An outgrowth of WSU's internationally renowned Center for Entrepreneurship, the interest was so great that it made sense to explore activities on other campuses. Later that fall, a meeting was arranged in Boston between some students at Babson, Colby, Dartmouth, Harvard, MIT, and Wichita State and the national association was formed. This was followed by the association's first national conference held in April, 1984, on the campus of MIT and cohosted by WSU. Sixty universities from 24 states and several countries participated, thus launching the association.

Since then, the association has held successful international conferences in Dallas, 1985, and Los Angeles, 1986, and is now working with over 300 universities in all fifty states and 12 countries. Present membership stands at 2750 and represents young entrepreneurs with combined 1985 gross revenues exceeding $5 billion.

The association is a non-profit 501 (c)(3) Kansas Corporation which receives funding from dues, ongoing programs, and private gifts. For the first two years of operation, the total budget for ACE was $65,000.

MISSION

The mission of the association is "to enhance and promote opportunities for young people interested in entrepreneurial pursuits." In accomplishing this, the association has identified three special problems somewhat unique to young entrepreneurs and has developed or is establishing programs to deal with these problems.

The first problem is one of credibility. Until recently, the business infrastructure has not been prepared to accept a teenager or someone in their early 20's as a serious business person. Reluctant suppliers, customers, bankers, and business support people have made it difficult for many young people to do business. Early support from parents has also been difficult for many. Statements from parents like "when are you going to get a real job?" enhance a young entrepreneur's difficulties.

BEST COPY AVAILABLE

Besides recommending to young people that they learn to lower their voice and conduct business over the phone! the association has worked hard to publicize the young entrepreneur movement. Like with many movements, education is the key. To date, the association has helped several hundred young entrepreneurs receive publicity in hundreds of feature magazine and newspaper articles and on several radio and television programs. The association also supports the research and recognition of the nation's "Top 100" young entrepreneurs age 30 and under.

A second problem plaguing young entrepreneurs is a lack of experience. Vicariously, this is being supplemented through a rising number of courses on entrepreneurship springing up around the nation. In addition, recognizing that one learns best-by-doing, the association has successfully held two tradeshows where young people can explore various entrepreneurial opportunities they can pursue while attending school or after they graduate. More recently, the association has successfully piloted a program called Campus Reps in New York state, which actively sets students up in business.

The third problem is a lack of a well developed informal information network. Many know this as the "old-boy network"--we call ours the "young person network", given the large number of women, today, involved in entrepreneurship. The association's number one thrust is to network the resources and information of the world's entrepreneurially-minded young people. This not only creates bonds of friendship, but the

benefits from the resulting synergy are tremendous in terms of personal and business effectiveness. As future business leaders, it makes sense to bring our young entrepreneurs together at a time when they do not have as many layers of aids and assistants between them and the streets, thus making it easier for them to meet and get to know each other. This networking is accomplished through three primary programs:

* Face-to-face contact via the international and regional conferences.
* Paper networking through a monthly newsletter and a quarterly, four-color newspaper.
* Networking through a nation-wide electronic network. Features include electronic bulletin boards, membership rosters, conferencing, and electronic mail.

Future activities include international conferences in Chicago, 1987, and Washington D.C., 1988; a one day young entrepreneurs conference in Japan accompanied by an exchange of young entrepreneurs; several trade missions for our members; the final development of a nation-wide business plan contest modelled after the one in Australia; and the completion and distribution of a 20 minute film on young entrepreneurs for distribution in elementary and secondary schools throughout the nation.

BEST COPY AVAILABLE

ACE update:

1986 LOS ANGELES INTERNATIONAL CONVENTION
FACT SHEET

Over 600 of the nation's top young entrepreneurs, students, and professors gathered February 20-23, 1986, at the Sheraton Universal/Premiere Hotel for the third international ACE-YEO convention. The theme of the convention was "Catching Your Second Wind" and the event was cohosted by USC and UCLA along with Wichita State.

Joining the 382 undergraduate and graduate students at the convention were 126 young entrepreneurs age 30 and under and 116 professors, all together representing 174 universities, 45 states, and twelve countries. The young entrepreneurs in attendance represented combined 1985 gross revenues of over $3 billion.

Seven keynote speakers, several honored guests, sixty seminars, an "Academy Awards" event for our nation's "Top 100" young entrepreneurs, the nation's largest entrepreneurial opportunity "EntreMart" tradeshow, several media representatives from around the world, and three days of California sun highlighted the convention.

Guest speakers included Mayor Tom Bradley; Steven Jobs, founder, Apple Computer and Next, Inc.; Brett Davis, founder, Troy Nichols Mortgage; T. Boone Pickens, founder, Mesa Petroleum; Regis McKenna, founder, Regis McKenna, Inc.; A. David Silver, noted author and managing partner, Santa Fe Private Equity Funds; Shoji Kanazawa, founder, Maruko, Inc. in Japan; Jack P. DeBoer, founder, Residence Inns; Carl N. Karcher, founder, Carl Karcher Enterprises; and Coach George Allen.

Additional highlights included a special one-day executive seminar for our Young Entrepreneur Organization (YEO) members; Arthur Lipper III's (chairman of Venture Magazine) critique of business ideas; the presence of a video crew gathering footage for an ACE sponsored program on young entrepreneurs; attendance by over 75 delegates from several countries; and a business card contest won by Looking Good, Inc., Los Angeles.

Chicago will be the site for the 1987 ACE-YEO International Convention.

BEST COPY AVAILABLE

CONFERENCE BITS & PIECES

We want to thank everyone who attended the conference in Los Angeles and we hope to see most of you again in Chicago...attached is an order form for CONFERENCE AUDIO TAPES...for those who would like an additional midnight blue and white ceramic CONFERENCE MUG can order one for $5 from our office...we passed out a rough, first-draft of the CONFERENCE DIRECTORY at the convention, but for those who would like an updated and more complete directory, we now have them available for $15--an invaluable resource!

NEXT NEWSPAPER

This school year's final four-color newspaper will come out the end of April. Information on regional meetings, club activities, announcements, articles, and ads need to reach our office by April 15. Also, any neat entrepreneurship stories, quips, or thoughts are appreciated--we'll give you credit.

REGIONAL MEETINGS

BOSTON UNIVERSITY, MASS.--March 22, for information contact Robert Carrigan at (617) 353-9809.

WILLAMETTE UNIVERSITY, OREGON--April 12, for information contact Dixon Bledsoe at (503) 370-6724.

GEORGETOWN UNIVERSITY, DC--April 19 (note: this is a change in the date!), for information contact Mark Corley or Dennis Andres at (202) 944-1221.

ACE update:

ASSOCIATION OF COLLEGIATE ENTREPRENEURS
Campus Box 147
Wichita State University
Wichita, KS 67208
(316) 689-3000

Non-Profit
Organization
U.S. Postage
PAID
Wichita, KS
Permit #1119

The Network for Young-Minded Entrepreneurs

CENTER FOR ENTREPRENEURSHIP
WICHITA STATE UNIVERSITY
WICHITA, KANSAS 67208
(316) 689-3000

ASSOCIATION OF COLLEGIATE ENTREPRENEURS

ACE NATIONAL CONFERENCE - UNIVERSITIES 1985

Alabama State University (AL)
Alaska Pacific University (AK)
Anderson College (IN)
Appalachian State University (NC)
Arizona State University (AZ)
Augusta College (GA)
Babson College (MA)
Ball State University (IN)
Barry University (FL)
Baruch University (NY)
Baylor University (TX)
Bemidji University (MN)
Boise State University (ID)
Boston University (MA)
Bowling Green State University (OH)
Brigham Young University (UT)
Cal-Poly San Luis Obispo (CA)
California Luthern College (CA)
California State College-Bakersfield (CA)
California State University-Sacramento
Canadore College (CANADA)
Central Missouri State University (MA)
Central State University (OK)
Chisholm Institute of Technology (AUSTRALIA)
Cleveland State University (OH)
College of Idaho (ID)
College of Ozarks (AR)
College of St. Thomas (MN)
Colorado State University (CO)
Columbia University (NY)
Concordia University (CANADA)
Cornell University (NY)
Curry College (MA)
Delta State University (MS)
Drake University (IA)
Duke University (NC)
Dyke University (OH)
East Texas State University (TX)
Eastern Michigan University (MI)
Eastern New Mexico University (NM)
Eastern Washington University (WA)
Emory University (GA)
Florida Southern College (FL)
Fordham University (NY)
Fort Lewis College (CO)
Franklin & Marshall College (PA)
George Mason University (VA)
Georgetown University (DC)
Georgia State University (GA)
GMI Eng. & Mgmt. Institute (MI)
Golden Gate University (CA)
Guilford College (NC)
Harvard (MA)
Hebrew University (ISRAEL)
Hill Junior College (TX)
Illinois Institute of Technology (IL)
Illinois Wesleyan University (IL)
Indiana State University (IN)
Institute Superieur Commerce (FRANCE)
James Madison University (VA)
John Carrol University (OH)
Kansas State University (KS)
Lawrence Institute of Technology (MI)
LeMoyne-Owen College (TN)
Loretto Heights College (CO)
Louisana Tech University (LA)
Loyola University of Chicago (IL)
Marquette University (WI)
Massachusetts Institute of Technology (MA)
McGill University (CANADA)
Mesa College (AZ)
Michigan State University (MI)
Mississippi State University (MS)
Missouri Southern State University (MO)
Monterrey Tecnologico (MEXICO)
Morgan State University (MD)
New Mexico Institute of Mining & Technol (MN)
New Mexico State University (NM)
New York University (NY)
Nicholls State University (LA)
North Harris County College (TX)
North Texas State University (TX)
Northeast Louiseana State University (LA)
Northern Arizona University (AZ)
Northern Illinois University (IL)
Northern Montana College (MT)
Nova University (MO)
Oklahoma State University (OK)
Oral Roberts University (OK)
Pace University (NY)
Parson's School of Design (NJ)
Pennsylvania State University (PA)
Princeton University (NJ)
Principia College (IL)
Quinnipiac College (CT)
Rice University (TX)

The Network For Young-Minded Entrepreneurs

61-535 0 - 86 - 9

CENTER FOR ENTREPRENEURSHIP
WICHITA STATE UNIVERSITY
WICHITA KANSAS 67208
(316) 689-3000

ASSOCIATION OF COLLEGIATE ENTREPRENEURS

Rochester Community College (NY)
Rochester Institute of Technology (NY)
Rutgers University (NJ)
Saint Louis University (MO)
Salem State College (MA)
Sam Houston State University (TX)
Samford University (AL)
San Diego State University (CA)
San Francisco State College (CA)
Seattle Pacific University (WA)
Sentenary College (NJ)
Seward County Community College (KS)
Simon Fraser University (CANADA)
Southeast Missouri State (MO)
Southeastern Louisiana University (LA)
Southern Alberta Institute of Technology
Southern Methodist University (TX)
Southern Utah State College (UT)
Southwest Missouri State University (MO)
St. Francis College (PA)
St. Marys University (TX)
Stephen F. Austin State College (TX)
Stirling University (SCOTLAND)
SUNY at Fredonia (NY)
Syracuse University (NY)
Texas A & I (TX)
Texas A & M (TX)
Tulane University (LA)
University of California - Santa Barbara (CA)
University of Minnesota (MN)
University of Alabama (AL)
University of Alaska - Fairbanks (AK)
University of Alberta (CANADA)
University of Arizona (AZ)
University of Arkansas (AR)
University of Baltimore (MD)
University of Calgary (CANADA)
University of California - Berkeley (CA)
University of California - San Diego (CA)
University of California - Los Angeles (CA)
University of Colorado - Boulder (CO)
University of Colorado -Colorado Springs (CO)
University of Colorado - Denver (CO)
University of Dallas (TX)
University of Delaware (DE)
University of Florida (FL)
University of Hawaii-Honolulu (HI)
University of Houston (TX)
University of Idaho (ID)
University Illinois (IL)
University of Illinois - Chicago (IL)
University of Illinois - Champaign-Urbana (IL)
University of Iowa (IA)
University of Kansas (KS)
University of Kentucky (KY)
University of La Verne (CA)
University of Louisville (KY)
University of Lowell (MI)
University of Miami (FL)
University of Michigan - Ann Arbor (MI)
University of Michigan - Dearborn (MI)
University of Minnesota - Morris (MN)
University of Missouri - Kansas City (MO)
University of Missouri - St. Louis (MO)
University of Montevallo (AL)
University of Nebraska - Lincoln (NE)
University of Nebraska - Omaha (NE)
University of North Carolina-Chapel Hill (NC)
University of North Dakota (ND)
University of North Florida (FL)
University of Northern Iowa (IA)
University of Notre Dame (IN)
University of Oklahoma (OK)
University of Pennsylvania (PA)
University of Pittsburgh (PA)
University of Puerto Rico-Rio Piedas (PR)
University of San Diego (CA)
University of Santa Clara (CA)
University of Sherbrook (CANADA)
University of South Alabama (AL)
University of Southern California (CA)
University of Tennesse-Chattanooga (TN)
University of Texas (TX)
University of Texas - Arlington (TX)
University of Texas-Austin (TX)
University of Texas - Dallas (TX)
University of the District of Columbia (DC)
University of Tulsa (OK)
University of Western Ontario (CANADA)
University of Wisconsin-Green Bay (WI)
University of Wisconsin-Madison (WI)
Virginia Commonwealth University (VA)
Washburn University-Topeka (KS)
Washington State University (WA)
Weber State College (UT)
West Texas State University (TX)
Whittier College (CA)
Wichita State University (KS)
Willamette University
William Patterson College (NJ)
Williams College (MA)
Xavier University (OH)

BEST COPY AVAILABLE

CENTER FOR ENTREPRENEURSHIP
WICHITA STATE UNIVERSITY
WICHITA, KANSAS 67208
(316) 689-3000

ASSOCIATION OF COLLEGIATE ENTREPRENEURS

ACE BASE MEMBERSHIP

The basic membership includes a certificate, listing on the electronic network database, monthly newsletters, quarterly publications, updates, regional and national conference information and an ACE packet.

BASE WITH CEM MEMBERSHIP

In addition to the basic membership with ACE, the CEM membership provides a newsletter from Dr. Joseph Mancuso with the Center for Entrepreneurial Management. It also includes one-year subscriptions to INC. and VENTURE magazines. The additional membership is regularly a $96.00 value.

ACE ELECTRONIC NETWORK

For anyone interested in communicating through the use of a computer and modem, ACE's electronic network may be accessed through Delphi. The network gives you the ability to converse with other ACE members, participate in ongoing discussions of current topics, attend online meetings led by distinguished entrepreneurs, exchange contacts, skills and information with other members, shop or send electronic mail. It also provides up-to-the-minute national and international news, travel and financial services and newsletters. You can retrieve information or make yourself known to people seeking entrepreneurial talent.

Our electronic network manager will be glad to assist you if you have any problems getting online with Delphi. His name is Scott Mize and may be reached at (617) 577-1202 or (617) 576-6489. His address is Mize Technology Development, One Kendall Square, Building 200, Cambridge, MA. 02139.

ACE FRANCHISE PACKAGE

This package is available for students and professors interested in starting an entrepreneurial organization. It is designed as a working tool to aid in setting up a group and includes three formats: the speakers' series, conference and student agency. Extensive information is presented on the speakers' series format. Sample constitutions, organizational charts and bylaws are included.

LOCAL/REGIONAL CONFERENCE PACKAGE

The information provided in this package is designed to aid those interested in hosting an entrepreneurial conference. The package includes a sample business plan outlining goals and objectives, organization, marketing strategy, scheduling, participants, budgeting, time frames and other helpful information. Copies of brochures used at other conferences are also included.

BEST COPY AVAILABLE

CENTER FOR ENTREPRENEURSHIP
WICHITA STATE UNIVERSITY
WICHITA, KANSAS 67208
(316) 689-3000

ASSOCIATION OF COLLEGIATE ENTREPRENEURS

MEMBERSHIP/ORDER FORM

NAME: _____ _____ _____
(Last) (First) (Middle)

MAILING ADDRESS: _____

_____

_____

PHONE: _____ _____ _____
(School) (Home) (Work)

UNIVERSITY/BUSINESS: _____

____ BASE MEMBERSHIP includes certificate, listing on the electronic network, publications, conference information and ACE packet . . . . . @ $15.00 = $_____

____ BASE WITH CEM MEMBERSHIP includes newsletter from Dr. Joseph Mancuso, one-year subscription to INC. and VENTURE magazines (Regular $96.00 value) Equivalent to one night out . . . @ $40.00 = $_____

____ ELECTRONIC NETWORK START PACK. . . . . @ $15.00 = $_____

____ FRANCHISE PACKAGE for starting local group . . . @ $14.50 = $_____

____ LOCAL/REGIONAL CONFERENCE PACKAGE to use as a planning guide . . . . . @ $ 7.50 = $_____

____ ADDITIONAL INFORMATION PACKETS . . . . . @ $ 2.00 = $_____

____ ADDITIONAL ACE FOLDERS . . . . . @ $ 1.00 = $_____

____ ACE NOTEBOOK . . . . . @ $ 8.50 = $_____

____ ACE CONFERENCE POSTER (Memorabilia). . . . . @ $ 5.00 = $_____

____ ACE GOLF SHIRT (S, M, L, XL) SIZE____ . . . . . @ $22.00 = $_____

____ ACE CONFERENCE NEWSPAPER (Minimum order 25). . . @ $ .10 = $_____

Sub-total . . . . . = $_____

Postage/Handling. . . . . = $ 3.00

TOTAL . . . . . = $_____

Make check payable to ACE and send to: Association of Collegiate Entrepreneurs, W.S.U., P.O. Box 147, Wichita, Kansas 67208

The Network For Young Minded Entrepreneurs

BEST COPY AVAILABLE

VIA SATELLITE

USA TODAY

Money

THURSDAY, FEBRUARY 20, 1986

COVER STORY

Teens make big bucks in business

But they learn it's far from child's play

By Dennis Black
Special for USA TODAY

When he was 15, Barry Mizrahi scraped together $4,200 for a used carpet-cleaning machine. His mother called her friends, and after school Mizrahi cleaned their carpets. Because he didn't have a driver's license, a buddy drove him to his jobs.

Last year, his friends, Carpet Wizard Company — ZZZZ Best — grossed $3 million. The 19-year-old now employs 122 people, including his parents, and drives himself to work in a fast-model sports car.

Mizrahi is part of a new wave of young entrepreneurs who are turning their ideas into profitable businesses. The Association of Collegiate Entrepreneurs, which begins its annual conference today in North Hollywood, Calif., will honor him as one of the top 100 entrepreneurs under age 29 in the USA.

"The young entrepreneur is emerging at the point this baby boom is born," says Vernon C. Reynolds, ACE national director.

Less than three years since its birth, ACE — based at Wichita State University in Kansas — boasts a membership of 1,000 students on 200 campuses. Attending the conference will be 200 eager young entrepreneurs whose businesses represent more than $1 billion in gross revenues.

Please see COVER STORY cont page 9

COVER STORY

Teen tycoons work hard

Continued from 1B

Guest speakers include Nina Petronzio, Co-Chairman T. Boone Pickens and Apple Computer Inc. co-founder Steve Jobs.

Entrepreneurship among teens is rising rapidly. Though the exact number of 4- to teen-age business owners is not known, government figures show that one-third of all new companies started last year were owned by people under 29.

"There are all kinds of opportunities that weren't there before," Reynolds says, "and young people are finding that they're just as competent as their elders to make them."

Experts and young people credit the Reagan administration's free-enterprise philosophy — along with a tight job market — with encouraging entrepreneurs.

Young tycoons such as Jobs, who co-founded Apple when he was 22, are serving as role models. "Do you realize," adds Mizrahi, "there are over 65 millionaires in this country under the age of 18?"

Hobbies and other teen-age interests often are factors behind their success.

■ They are makers, self-starters and highly motivated.

John Harrison of Cleveland at age 8 began publishing advertising pamphlets drawn by his uncle.

Today Harrison's company grossed $500,000 a year, with 500 customers ranging from the corner store to Fortune 500 companies. Harrison, five sales representatives, a secretary and a bookkeeper and knows $5,000 novelty songs is big business. "Sometimes I am bothered because I think I could be doing a lot better," says Harrison. "But then I remember I am only 18 years old."

■ They are willing to work long, hard hours to achieve their goals. "I don't remember ever taking a day off," says Mizrahi, who starts his day at 5 a.m. by lifting 400-pound weights. "If I'm gone from the office for just a couple of hours, I wonder what is going on."

■ They love what they do. Many take regret. Interested don't do enough.

When Erin Merrill was 11, she started some classes in a local candy store and thought she could do better. She made up her own recipe and began selling it around town. She earned enough to vacation in Switzerland and buy an Apple computer.

Merrill, now 18, talked her hometown bank in Cumberland, Md., into lending $15,000 to her for a new chocolate factory. She has formed her own corporation, has hired three teen-age employees and is ready to tackle the business world.

Apple Computer has asked her to put her logo on Erin's Chocolates for company promotions. "I never started out intending to have my own business," she says. "I just accidentally happened."

Thousands of youngsters have turned to lesser-known hustle. Adam Starrick, of Washington, D.C., started mowing in the early grades and hasn't stopped.

By the end of last year, Starrick's business, Northwest Lawn Services, raked in $150,000. His 150 customers include diplomats and presidential aides — one of his first clients was former Secretary of State Alexander M. Haig. "I like being the boss," says Starrick, 19. "I love being on top of everything and not having to take orders from older people."

But young entrepreneurs face roadblocks. Merrill says her age was her "biggest problem" in establishing her business. She was unable to get credit until her parents co-signed for her. She couldn't incorporate until she turned 18.

Age also can be an obstacle with customers. "I had a little bit of difficulty at first," says Robert Leon Grace, 21, who at age 16 started a luxury limousine service in Washington, D.C. "People weren't sure they wanted to treat their business to a teen-ager."

Be compensated by offering half-price introductory rates, wearing suits, impressive suits and bringing notes to prospective customers' secretaries. Last year, he drove limousine services in Boston, New York and Washington brought in $2 million, and he plans to expand nationwide.

Young entrepreneurs learn how risky and time-consuming a business can be.

Joanne Marlowe, 19, began designing clothes at 14 for her friends. She currently operates her own fashion boutique in Evanston, Ill. While she projects $10-a-year gross of up to $1 (4,000, maintaining "cash flow" is a problem, she says. But, "I will work 18 to 20 hours a day if I have to. And I work well under pressure."

Many young business owners say the support of their parents was important. Parents lent money, pitched in to help and gave good advice.

But many are critical of their schools, which recognize the outstanding athletes and "A" students but not the young businessmen and businesswomen, they say.

"I was messing with the system, and to everyone around me, that was unheard of," recalls Mizrahi. "The system is, 'go to high school and then you go to college. If you are successful before that, they are not going to publicize the fact that you could do it without them."

That's changing as entrepreneurs and educators unite to teach young people in far secondary schools. Elementary and secondary schools offer practical economics classes and invite young business owners to tell their stories.

ACE and the National Federation of Independent Business have put together a video on successful teen-age businesses, to share in schools. Business clubs are "in" at many schools and colleges.

Students are learning, says Reynolds, that "if you can't find a job or a big company, maybe you can go out and create your own."

The young and successful

By Rob Shaw

Young entrepreneurs

One-third of all new companies are started by people under 29. Many of them are still in their teens. Here's what the Association of Collegiate Entrepreneurs says it takes for teens to succeed in business:

- Self-confidence
- A high level of drive and energy
- Ability to deal with uncertainty, confusion
- Persistence
- Ability to set goals
- An independent nature
- Support and help from parents

Source: Association of Collegiate Entrepreneurs

BEST COPY AVAILABLE

VIA SATELLITE

USA TODAY

Money

MONDAY, FEBRUARY 24, 1986

And Jobs still shines among entrepreneurs

Apple Computer Inc. founder and former Chairman **Steven Jobs** is the USA's top young entrepreneur, according to the Association of Collegiate Entrepreneurs.

ACE picked Jobs, 30, at its annual convention Friday night. Jobs, of **Palo Alto**, Calif., founded Apple when he was 22; last year Apple had revenues of $1.9 billion.

ACE picked the top 30-or-younger entreprenuers, based on the companies' 1985 gross revenues. The other winners:

■ **Brett Davis**, 26, of **Dallas**, whose Troy Nickel real estate investment company grossed $790 million. He started the company at 25.

■ **Mark Hughes**, 30, of **Los Angeles**, founded Herbal Life, which grossed $512 million. He was 23 at start-up.

■ **William Gates III**, 30, of **Bellevue**, Wash., started Microsoft Corp. at 19; last year it grossed $140 million.

■ **Jennifer Churney**, 28, and **Robert Shapiro**, 24, both of **New York**, founded R.H. Shapiro & Co. three years ago; last year it grossed $155 million.

■ **Debrah Charatam**, 28, of New York, started Bach Realty Inc. at 23; it grossed $100 million in 1985.

■ **Debbi Fields**, 29, of **Provo**, Utah, started Mrs. Fields Chocolate Chippery nine years ago and last year grossed $60 million.

■ **Xavier Roberts**, 30, of **Cleveland**, grossed $40 million from Original Appalachian Artwork Inc., which he started at age 24.

■ **Michael Dell**, 20, of **Austin**, Texas, grossed $36 million from PC's Limited in 1985. He started the company 20 months ago.

■ **Jay Adeni**, 27, of **Brooklyn**, N.Y., founded Admos Shoe Corp. at 19; last year it grossed $20 million.

Insiders reported by Betsy Bauer, Dennis Blank, Haya El Nasser and Kevin Johnson

BEST COPY AVAILABLE

THE WALL STREET JOURNAL

PAGE 33
THURSDAY, APRIL 4, 1985

On Campuses, Making Dean's List Comes Second to Making a Profit

By Karen Blumenthal
Staff Reporter of The Wall Street Journal

DALLAS – A Stephen F. Austin University student wants partners to drill oil wells. A Rutgers University student pushes a gift item for the authority-challenging collegian: a mounted screw and a blunt slogan. Other students talk of painting yachts, delivering birthday cakes or selling underwear emblazoned with school crests.

This is a convention of the Association of Collegiate Entrepreneurs, whose mushrooming membership reflects a growing reality: College students, once given to burning draft cards, are increasingly exchanging business cards. "It's become fashionable on campus to be 19 and say, 'I have my own company,' " says Verne Harnish, national director of the association.

Enterprising students have long been found on campuses, of course, particularly those working their way through school. But college professors and administrators say this generation shows more entrepreneurial fervor than they've ever seen.

Most charitably seen, it's a reaffirmation of belief in the nation as land of opportunity. Most cynically, it's a reflection of a growing desire to get filthy rich young. It is, in any event, manifested by change in campus heroes, from old Yippie outlaw Abbie Hoffman to young Apple Computer Chairman Steven Jobs.

The Association of Collegiate Entrepreneurs, a clearinghouse for entrepreneurial ideas, started with seven member colleges in 1983; it has more than 170 today. And student-run businesses are sprouting by the score. "I think they see this as an exercise that's going to prepare them for the big game," says Edward Birch, vice chancellor of the University of California-Santa Barbara.

Marketing to Students

Many collegiate entrepreneurs market to the customers whose needs they know best: their fellow students. At the University of Texas, for instance, men try to woo that special date by sending her flowers in advance. So junior Steve Schaffer decided to buy long-stem roses wholesale and deliver them.

In the best tradition of small businessmen, he undercuts the local flower shops with lower overhead. He advertises with cheap fliers and does most of the deliveries himself. Thus, he markets the posies for about one-third the price of the flower shops, sells about 25 dozen before each big dance and sees a nice profit.

At Texas A & M University, tradition holds that men give visiting mothers, sisters and girlfriends mums to wear at home football games. Student Mark Brown decided to provide an alternative, by selling East Texas roses at $3.50 a dozen (a dollar or two less than mums) and racking up big sales. In its first year of business, 1983, his Dixie Rose Co. sold more than 500-dozen roses on some football weekends.

But campus enterprises aren't immune to the reversals that the cold, cruel world can deal any business. Come 1984, the Aggie home games started being televised. Attendance dropped dramatically and so did Dixie Rose's sales, to about 150 dozen a football weekend. The venture still turned a profit, but on a much more modest scale.

Try, Try Again

Some businesses never even make modesty. Last year, University of Arizona student A. David Zoller and a friend sunk $1,000 into an endeavor to sell personalized stationery. But they neglected to ask students – their target market – what products they actually wanted. They drew only 30 orders, prompting them to close up shop.

Whether with roses for dates or calendars for dorms, many college entrepreneurs market to the consumers they know best: their fellow students.

But there's a nice thing about campus entrepreneurship: The stakes aren't that big, the failures aren't that catastrophic and the students aren't generally afraid to try again. Mr. Zoller has just launched a new enterprise, selling electronic message-boards to local businesses. It came into being only after a careful study to verify the demand. "I learned that the most important thing is to evaluate the market before I get into it," he says.

Two freshmen at the University of California-Santa Barbara learned another business lesson last year, when they decided to put on dances for students too young for the local discos. They spent more than $1,000 up front, printing 5,000 invitations, renting a roller-skating rink and buying 500 roses for the ladies. Only 350 students showed up. They were left with a loss and a lot of roses on their hands.

The students, David Glickman and Larry Vein, cut costs for the next dance by eliminating printed invitations and roses, and they raised revenues by selling advertisements on sheets distributed at the dances. By the third dance, with expenses pared to a few hundred dollars, they turned enough of a profit for the whole venture to break even. The partners have since turned to the more lucrative business of selling discount clothing on campus.

Some businesses that begin with only modest aspirations have become grand enterprises. Two-and-a-half years ago, another U.C.-Santa Barbara student, Dan Bienenfeld, borrowed $2,000 from his father to produce a calendar. It was to feature photos of some of the good-looking men about campus, an imitation of a popular calendar created by University of Southern California students. Though the photos were only black-and-white and though the distribution was limited to California, Mr. Bienenfeld grossed $10,000.

In early 1983 he aimed higher, taking on two partners and finding an investor to put up $80,000. They put out a glossy calendar called California Dreaming and enlisted professional salesmen to sell them nationwide. But theirs was just one of many products being pushed by the salesmen, and they garnered less than $20,000 of orders.

Then, together with four employees, the three spent the summer doing their own selling: to card shops, beauty parlors, boutiques, book stores and more.

Calendar sales hit $200,000 in 1984, and this year College Look Inc., as it's now called, has added lines of posters, gift-wrap and a teddy-bear that sings "Love Me Tender" when hugged. Sales are expected to reach $3 million. "We've hit the home run," says 22-year-old Chip Conk, an original pinup boy and now one of the partners. "Now we just have to run the bases."

Rough Road

More typically, though, the young entrepreneurs find the road to riches neither short nor smooth. As a student at Babson College in Wellesley, Mass., Jed Roth ran a car-cleaning business on a shoestring and earned a modest $15,000 profit as a senior. But when he graduated and wanted to grow the business, he faced a stretch of frustration. Banks were loath to give him a loan, and costs like rent and insurance were daunting.

Finally, Mr. Roth found an investor willing to stake him – a Porsche-driving customer – and with that boost the business has grown, to revenues of $100,000 last year. But he's working seven-day weeks, coping with constant pressures and finding the good life elusive.

"I want my own Porsche, I really do," he says. "But I can get a van (equipped with a water tank and hoses) for the same price." Adds Mr. Roth, wearily, "Sometimes I wonder what it would be like to be employed."

From Barron's, National Business and Financial Weekly, March 25, 1985

By WILLIAM TUCKER

DALLAS—I had been wandering through the huge exhibit at the Loew's Anatole here for about 10 minutes when I finally spotted a young man with a card saying "ACE—American Collegiate Entrepreneurs" pinned to his lapel.

"Where's the registration for the conference?" I asked.

"Are you a professor?" he asked. He couldn't have been older than 21.

"I'm covering this for *Barron's* magazine," I said.

"A great way don't I give you my card?"

Well, a young man on the make, up." I said impressed that someone his age would already have a business card.

"Yeah, we've got two stores," he said. "We're just raising the money to open the third."

He was Clark David McKee, co-owner and president of Pyramid Pizza of Lawrence, Kan. I had misjudged his age. He was only 20.

* * *

ANYONE who doesn't think that free enterprise is alive and well in America should have been in Dallas the weekend before last for the second annual convention of the Association of Collegiate Entrepreneurs. There he would have met some of the best and the brightest of the new generation, ready to shake his hand, tell him their ambitions, trade business cards and perhaps ask if he knew the names of any good venture capitalists.

These are the movers and shakers, right here," one confident undergraduate said.

"You're going to be hearing from these people for years to come."

Entrepreneurship is rapidly becoming the biggest fad on campus—the "movement" of the Eighties. The kid with the lemonade stand is suddenly a big man—or woman—on campus.

"Nobody knows how this happened, but it just did," said Verne Harnish, a 26-year-old Wichita engineering major who is national director of ACE. "Two years ago, a group of five students met in the basement of a Chinese restaurant in Harvard Square and decided to form the group. Last year, we had our first convention at MIT, and 225 students came. Next year, we're headed for Los Angeles, and we may have to rent out the Coliseum."

The up-and-coming generation of young entrepreneurs is bright, brash, bold and feverishly enthusiastic. After Harold Geneen, former CEO of ITT, gave the opening address Friday night one student went up and asked him for his business card.

Typical is Phil Smith, barely two months out of the University of Michigan, and already roaming the country as an apostle of free enterprise. Two years ago, Smith and a friend, Scott Weinberg, founded Entrepreneurs of U. of M., a campus club that already has 400 members, and has helped dozens of students start their own businesses.

Two months before graduating last January, Smith saw a segment on *60 Minutes* about private prisons. He immediately phoned Ted Nissen, founder of Behavioral Systems Southwest, in Pomona, Calif., and badgered his way into a job. Already, Smith is racing back and forth across the country, staying with friends, and holding private conversations with people like Supreme Court Chief Justice Warren Burger about privatizing the prison system.

"Private enterprise is the only way to get things done," he says in the hyperactive delivery style endemic among college entrepreneurs. "The government just can't do things the way people can or them for themselves. We're going to build prisons cheaper, and run them to reform criminals, instead of just warehousing them. It's the only way we're going to save this country from crime."

Twenty years ago, whirlwinds like Smith were scurrying across the country lining up civil rights demonstrations, organizing anti-war protests and founding radical newspapers. Today, the same energy is there. It's just being enlisted in a different cause.

The rage for starting small businesses seems to have arisen simultaneously over the past two years on dozens of different campuses. "We formed a club around the idea of entrepreneurship two years ago," says Mark Clark, a junior at the State University of New York at Fredonia. "Then we met a few kids from other campuses, and said, 'Let's form a national organization.' We even picked the name for it—Association of Collegiate Entrepreneurs, or ACE. Two months later we learned that Verne Harnish's group in Wichita had already done the same thing."

Of course, there's nothing new about students "working their way through college," selling T-shirts, tending bar or hustling odd jobs. But today's entrepreneurial craze is different. "The students who paid their way in past years were aiming at becoming something else—doctors or lawyers," says Professor Fran Tabara, the son of an itinerant Oklahoma peddler who is founder and director of the Center for Entrepreneurship at Wichita State University, and something of a godfather to the current effort. "These kids are interested in entrepreneurship for its own sake. They see it as a career choice."

Television and newspaper reports about the new "consumerism" on campus have tended to picture it as "selfish" and "materialistic." But you'd have a hard time telling that to anyone in Dallas.

"Creativity" is a word that pops up over and over in conversations with young entrepreneurs. "You get to do things that count, that make the world different," says Jim Gianakis, who is selling a student guide-to-campus-life at Rutgers. "You're creating jobs, improving productivity, and bettering people's lives," says Brett Kingstone, 25-year-old president of Telecon Electronics Inc., in Denver.

Like the young rebels of the '60s, today's entrepreneurial whiz kids are basically the sons and daughters of the middle class. They are not the scions of great wealth, cashing in on the family fortune. Nor are they likely to be from extremely poor backgrounds. Instead, they seem to have grown up in families with some basic experience in small business, but whose parents have had to struggle.

Surveys have revealed an unusual number of first-born children among entrepreneurs (about half the hands in the room went up when this question was asked at the Saturday banquet). There are more males, but about one quarter of the conference attendees were female. Many students were from foreign or immigrant families. There was a healthy scattering of intensely serious black students. Nobody I asked had ever heard of George Gilder.

Kim Merritt was perhaps prototypical. The eldest daughter of the funeral director in a small town in western Maryland, she sampled some chocolate at a store when she was 11 years old and decided she could do better. She made her own recipe, and started selling candy around town. People liked it. She got contracts for fund-raisers, and ended up making 18,000 candy bars for a high school graduation. Now Merritt has her own retail store—Kim's Khocolate Korner—and is thinking of opening branches. She hasn't yet decided whether she wants to go to college or open a chocolate factory. She is only 17.

To be sure, not everyone at the Dallas conference is about to conquer the world by the time they're 21 (although there were few who would admit they aren't about to try). And there can be a dreary repetitiveness to some of college entrepreneurship's "innovations." Practically every time two schools play football these days, somebody comes up with a T-shirt that says "Aggie-busters" or something. Care packages, birthday surprises from parents, and campus guides are commonplace. Ann Landers has already gotten letters complaining about the battalions of student salesmen knocking on people's doors.

There is also a kind of "Mow-your-lawn, Ma'am?" quality to some student efforts. Food delivery services and wake-up calls abound. One person got his start tucking people into bed at night, dressed as a teddy bear. But then, what's the difference? Women in business Scott Weinberg, at the University of Michigan, started a car wash last summer and soon found himself employing 15 black teenagers in their first ever full-time jobs.

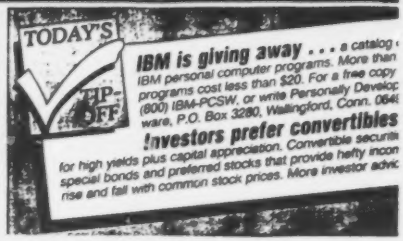
And a palpable sense of future mission was everywhere in Dallas. Heads nodded vigorously every time someone mentioned recent capitalistic developments in China. "I really believe that when nations learn to deal with each other on a business level, they won't be so inclined to go to war with each other," one young entrepreneur told his peers.

Nobody suggested that envoys be sent to the Soviet Union to proselytize their counterparts at Moscow University, but it probably just as well. Had anyone mentioned it, a delegation of 20 young enthusiasts probably would have assembled at Dallas International Airport last Monday morning, Russian language books stuffed in their briefcases, business cards in hand. ■

VIA SATELLITE THE NATION'S NEWSPAPER

USA TODAY
Money

MONDAY, MARCH 18, 1985


TODAY'S
TIP-OFF
IBM is giving away . . . a catalog
IBM personal computer programs. More than
programs cost less than $20. For a free copy
(800) IBM-PCSW, or write Personally Develop
ware, P.O. Box 3280, Wallingford, Conn. 064
!nvestors prefer convertibles
for high yields plus capital appreciation. Convertible securiti
special bonds and preferred stocks that provide hefty incon
rise and fall with common stock prices. More investor advic

INSIDERS

BEHIND THE SCENES IN THE WORLD OF BUSINESS

Entrepreneurs make short work of success

They have an average age of 26, most started their own firms in the past five years and today their firms have average annual sales of more than $22 million. They are the top 100 young entrepreneurs named by the Association of Collegiate Entrepreneurs.

The group, which met in **Dallas** over the weekend, released its first ranking of magnates under the age of 31. The top 10:

■ **Steven Jobs**, 30, chairman of Apple Computer Inc. in **Cupertino**, Calif. Started Apple at age 22. 1984 revenues: $1.9 billion.

■ **Mark Hughes**, 29, chairman of Herbal Life in **Culver City**, Calif. Started the company at age 23. 1984 revenues: $485 million.

■ **Brett Davis**, 28, chairman of Stockton Savings Association in **Dallas**. Started the firm at age 24. 1984 revenues: $215 million.

■ **William Gates III**, 29, chairman of Microsoft Corp. in **Bellevue**, Wash. Started the company at age 19. 1984 revenues: $125 million.

■ **Deborah Charatan-Berger**, 28, president of Bach Realty Inc. in **New York**. Started at age 23. 1984 revenues: $100 million.

■ **Debbi Fields**, 29, president of Mrs. Fields Chocolate Chippery in **Park City**, Utah. Started the company at age 21. 1984 revenues: $45 million.

■ **Rob Thompson**, 29, chief executive officer of Red Shaw Inc. (now a part of the Hartford Insurance) in **Pittsburgh**. Started the company at age 20. 1984 revenues: $40 million.

■ **Barron Thomas**, 29, president of Barron Thomas Aviation in **Dallas**. Started the company at age 21. 1984 revenues: $40 million.

■ **Xavier Roberts**, 29, chairman of Original Appalachian Artwork Inc. in **Cleveland**, Ga. Started the company at age 22. 1984 revenues: $40 million.

■ **Jennifer Cherney**, 24, and **Robert Shapiro**, 27, partners in R.H. Shapiro & Co. in **New York**. Started the company when Cherney was 21 and Shapiro was 24. 1984 revenues: $40 million.

"One of the best ways to get a job is to have practical experience," says **Verne C. Harnish**, 26, national director of the association, which is based at **Wichita** State University in **Kansas**. "Running one of your own companies is the best way to do that."

— **Harriet C. Johnson**

BEST COPY AVAILABLE

CENTER FOR ENTREPRENEURSHIP
WICHITA STATE UNIVERSITY
WICHITA, KANSAS 67208
(316) 689-3000

ASSOCIATION OF COLLEGIATE ENTREPRENEURS

MEDIA SUMMARY

TELEVISION COVERAGE

Cable News Network (CNN)--2 Segments
CBS Morning News--November 1, 1985
ESPN--Nation's Business Today--November 6-8, 1985 (3 Part Segment)

RADIO COVERAGE

Voice of America
John Gambling Show--New York
WCBS-FM--New York
Several radio stations throughout U.S.

MAGAZINE AND NEWSPAPER COVERAGE

Barron's--March 25, 1985
Best of Business--Spring 1985
Campus Voice--February/March 1985
Changing Times--September 1985
Entrepreneur--June 1985
INC.--October 1984
Kansas Business News (Cover Story)--May 1985
Money--October 1985
National Business Employment Weekly--Fall 1985
Nation's Business (Cover Story)--November 1985
New York Times--August 27, 1985; December 11, 1985
Playboy--September 1985
Self--September 1985
Success--October 1985
Teenage--March 1985
UPI story picked-up around the world--March 1985
USA Today--March 18, 1985; August 14, 1985; several future articles
Venture--February 1985
Wall Street Journal--April 4, 1985
Women's Day--October 1985
Several city newspapers in Baltimore, Chicago, Dallas, Los Angeles, San Francisco, and even Toledo!
Several University newspapers around the nation.

Senator KASTEN. Verne, thank you very much.

Our next witness on this panel is Kim Merritt, President of Kim's Khocolate in Cumberland, Md.

STATEMENT OF KIM MERRITT, PRESIDENT, KIM'S KHOCOLATE, CUMBERLAND, MD

Ms. MERRITT. Good afternoon.

My name is Kim Merritt. I am 18 years old, and I am the president of Kim's Khocolate. We are a chocolate manufacturing company based in Cumberland, MD.

How I originally got started in the chocolate business was really an accident. Seven years ago, when I was 11, my grandmother and I were shopping in my home town and we walked into a store that was making chocolate. My grandmother bought me three molds and a bag of chocolate. I took it home and thought wouldn't this be a great way to make extra money. It really started from there.

I started selling in local arts and crafts shows. Then, local merchants started carrying my products. It grew year by year. We opened a retail store in a spare room in our house, and I did it on the side while I was going to high school.

What really changed my hobby into a business was in 1984 when I was a senior. I was contracted by my high school to do their annual fundraiser. We handmade over 18,000 candy bars. It took us 38 days and a lot of time. It was kind of a school project. Everybody came and they helped wrap.

However, it was through this project that we started receiving a lot of national publicity. It was also at this time that I became associated with the Association of Collegiate Entrepreneurs. Before this time, my family and I really did not know what an entrepreneur was. It was through ACE and going to the convention in Dallas that I learned I was not such an oddball after all; there were other people out there in the world like me who were starting businesses at very young ages and we were all facing the same problems.

Through ACE, a lot of unanswered questions have been answered, and it has been able to hook me up with a lot of other people that I can talk to and relate to.

After the conference, I decided that I was going to run Kim's Khocolate fulltime and use the practical experience of every day business as my education instead of going to college. From last March up until December, we spent time writing a business plan, obtaining a $75,000 loan from a local bank and a community loan fund, and we expanded my facilities, moved them to a new location, bought some machinery, hired some employees, and last weekend was the grand opening of our new factory.

We are now specializing in three lines of chocolate products, one being fundraising candy bars which we are going to be marketing to schools, churches, and nonprofit organizations. The second is a line of gourmet chocolates, peanut butter truffles and fudgibles which we have to be marketed to department stores and through direct mail. The third is a custom line of chocolate made for businesses putting their logos and the products they make into chocolate that can be used for advertising, public relations, executive gifts.

BEST COPY AVAILABLE

We are working right now with Apple Computers. We have designed a custom line of chocolate for them that they are interested in, so that is one thing we are working on now.

The major problems I have faced throughout my years in business have been my age. I could not incorporate until I was 18. That was my 18th birthday present. Most people want a car and a stereo. I wanted to be incorporated. So, that was my 18th birthday present.

I couldn't borrow money without my parent's co-signature. My mom and dad put up our house as collateral on my loan which I think shows their great support of what I am doing and support of my business.

Another thing was that I couldn't sign my lease until I was 18. We waited around for a long time just to be able to move into our new facilities.

With a positive attitude, it is all something that can be overcome, which we have, but I will probably be facing an age problem for at least another 5 to 7 years.

Thank you.

[The prepared statement of Ms. Merritt follows:]

My name is Kim Merritt. I am eighteen years old and I am the president and owner of Kim's Khocolate, Inc. We are a chocolate manufacturing company based in Cumberland, MD. I got started in the chocolate business seven years ago when I was eleven. It started purely by accident when my grandmother bought me three molds and a bag of chocolate one day while shopping. I took it home and thought this would be a great way to make extra money.

I started selling my products at local arts and crafts shows and to local merchants. Kim's Khocolate grew year by year until our big break in 1984 when my high school contracted me to produce the candy bars for their annual fundraiser. I handmade over 18,000 candy bars in 38 days. This project is what really turned my hobby into a business.

It was at this point in time that we started receiving large amounts of national publicity. It was also at this time when I became a member of the Association of Collegiate Entrepreneurs. After going to the 1984 ACE convention in Dallas and talking to other entrepreneurs and students and professors of entrepreneur programs, I decided I was going to run Kim's Khocolate full time and use the practical experience of everyday business as my education.

From this point on, I started writing a business plan and I began to expand my operations. I obtained a $ 75,000 loan from a local bank and a county loan fund that I used for the expansion of my facilities. The grand opening of our new factory was March 13-16, 1986.

We are now specializing in three lines of chocolate products. Our first line is fundraising candy bars that we plan to market to schools, churches, and nonprofit organizations. Our second line is gourmet chocolates, including peanut butter truffles and fudgables, that we will plan to market to department stores and through direct mail. Our third line is custom made chocolate for businesses in the shape of their logos and the products they make for use in advertising, promotion, and for executive gifts.

The major problem I have faced throughout the years I have been in business is my age. I could not incorporate until I was eighteen. I could not borrow money without my parents cosignatures. I could not sign a lease until I was eighteen. Possibly if government could reconsider some of the age barriers that exist, more young people could experience America s free enterprise system firsthand.

Kim's Khocolate, Inc.™

Rt 3, Box 4-0, Bedford Road Cumberland, Maryland 21502 (301) 722-8108

61-535 0 - 86 - 10

[From USA Today, February 20, 1986]

Young entrepreneurs

One-third of all new companies are started by people under 30. Many of them are still in their teens. Here's what the Association of Collegiate Entrepreneurs says it takes for teens to succeed in business:

- Self-confidence
- A high level of drive and energy
- Ability to deal with uncertainty, confusion
- Persistence
- Ability to set goals
- An independent nature
- Support and help from parents

Source: Association of Collegiate Entrepreneurs

COVER STORY

Teens make big bucks in business

But they learn it's far from child's play

By Dennis Blank
Special for USA TODAY

When he was 15, Barry Minkow scraped together $4,300 for a used carpet-cleaning machine. His mother called her friends, and after school Minkow cleaned their carpets. Because he didn't have a driver's license, a buddy drove him to his jobs.

Last year, his Reseda, Calif.-based company — ZZZZ Best — grossed $3 million. The 19-year-old now employs 122 people, including his parents, and drives himself to work in a late-model sports car.

Minkow is part of a new wave of young entrepreneurs who are turning their ideas into profitable businesses. The Association of Collegiate Entrepreneurs, which begins its annual conference today in North Hollywood, Calif., will honor him as one of the top 100 entrepreneurs under age 30 in the USA.

"The young entrepreneur is emerging as this generation's hero," says Verne C. Harnish, ACE national director.

Less than three years since its birth, ACE — based at Wichita State University in Kansas — boasts a membership of 2,000 students on 200 campuses. Attending the conference will be 300 eager young entrepreneurs whose businesses represent more than $1 billion in gross revenues.

Teen tycoons work hard

Continued from 1B

Guest speakers include Mesa Petroleum Co. Chairman T. Boone Pickens and Apple Computer Inc. co-founder Steve Jobs.

Entrepreneurship among teens is rising rapidly. Though the exact number of school-age business owners is not known, government figures show that one-third of all new companies started last year were owned by people under 30.

"There are all kinds of opportunities that weren't there before," Harnish says, "and young people are finding that they're just as competent as their elders to seize them."

Experts and young people credit the Reagan administration's free-enterprise philosophy — along with a tight job market — with encouraging entrepreneurs.

Young tycoons such as Jobs, who co-founded Apple when he was 22, are serving as role models. "Do you realize," asks Harnish, "there are over 65 millionaires in this country under the age of 18?"

Minkow and other teen-age entrepreneurs cite factors behind their success:

- They are mature, self-assured and highly motivated.

John Herman of Cleveland at age 8 began peddling advertising samples door-to-door for his uncle.

Today Herman's company grosses $500,000 a year, with 500 customers ranging from the corner store to *Fortune* 500 companies. Herman five sales representatives, a secretary and a bookkeeper, and houses 50,000 novelty items in his warehouse. "Sometimes I am bothered because I think I could be doing a lot better," says Herman. "But then I remember I am only 18 years old."

- They are willing to work long, hard hours to achieve their goals. "I can't remember ever taking a day off," says Minkow, who starts his day at 5 a.m. by lifting 400-pound weights. "If I'm gone from the office for just a couple of hours, I wonder what is going on."
- They love what they do. Many teenagers' businesses start as hobbies.

When Kim Merritt was 11, she sampled some chocolate in a local candy store and thought she could do better. She made up her own recipe and began selling it around town. She earned enough to vacation in Switzerland and buy an Apple computer.

Merritt, now 18, talked her hometown bank in Cumberland, Md., into lending $75,000 to her for a new chocolate factory. She has formed her own corporation, has hired three teen-age employees and is ready to tackle the business world.

Apple Computer has asked her to put its logo on Kim's Chocolates for company promotions. "I never started out meaning to have my own business," she says. "It just accidentally happened."

Thousands of youngsters mow lawns to make extra bucks. John Shorub, of Washington, D.C., started mowing in the sixth grade and hasn't stopped.

By the end of last year, Shorub's business, Northwest Lawn Service, raked in $152,000. His 150 customers include dignitaries and presidential aides — one of his first clients was former Secretary of State Alexander M. Haig. "I like being the boss," says Shorub, 19. "I like being on top of everything and not having to take orders from other people."

But young entrepreneurs face roadblocks. Merritt says her age was her "biggest problem" in establishing her business. She was unable to get credit until her parents co-signed her loan. She couldn't incorporate until she turned 18.

Age also can be an obstacle with customers. "I had a little bit of difficulty at first," says Robert Louis Dean, 21, who at age 18 started a luxury limousine service in Washington, D.C. "People weren't sure they wanted to trust their business to a teen-ager."

He compensated by offering half-price introductory rates, wearing dark, expensive suits and bringing roses to prospective customers' secretaries. Last year, his three limousine services in Boston, New York and Washington brought in $2 million, and he plans to expand nationwide.

Young entrepreneurs learn how risky and time-consuming a business can be.

Joanne Marlowe, 19, began designing clothes at 14 for her friends. She recently opened her own fashion boutique in Evanston, Ill. While she projects first-year sales of up to $110,000, maintaining "cash flow" is a problem, she says. But, "I will work 19 to 20 hours a day if I have to. And I work well under pressure."

Many young business owners say the support of their parents was important. Parents lent money, pitched in to help and gave good advice.

But many are critical of their schools, which recognize the outstanding athletes and "A" students but not the young businessmen and businesswomen, they say.

"I was messing with the system, and to everyone around me, that was unheard of," recalls Minkow. "The system is, you go to high school and then you go to college. If you are successful before that, they are not going to publicize the fact that you could do it without them."

That is changing as entrepreneurs and educators unite to teach young people to be successful in business. Elementary and secondary schools offer practical economics classes and invite young business owners to tell their stories.

ACE and the National Federation of Independent Business have put together a video on successful teen-age businesses, to show in schools. Business clubs are "in" at many schools and colleges.

Students are learning, says Harnish, that "if you can't find a job in a big company, maybe you can go out and create your own."

/From Ms Magazine, April 1985/

KORNERING THE KHOCOLATE MARKET

Move over, Hershey's, Nestlé's, and Godiva. Make room for Kim Merritt, the enterprising 17-year-old chocolatier from Cumberland, Maryland, who has been "in the business" since she was 11.

The business is Kim's Khocolate Korner, which she started with three molds received as a gift from her grandmother. In five years, it has grown from a hobby for the enjoyment of family and friends, to a vast kitchen operation that last Christmas turned out 18,000 candy bars (by hand) and earned about $9,000 for a high school fund-raising drive.

To produce, wrap, and sell the candy door-to-door and in neighborhood shopping malls, Kim organized a cadre of students to deliver an enthusiastic sales pitch and fulfill a sales quota of 36 bars each.

"I had a mold made especially for this project," says Kim. "It has the name of my high school directly on the bar." The candy bar sold for $1, of which 52 cents went into the coffers of Bishop Walsh High School, and the rest to Kim. After expenses, she saw a $3,000 profit, which she spent on an Apple computer for her business.

Kim is very serious about both the craft and economics of chocolate-making. After graduating from high

school in January, she enrolled at Allegany Community College. This summer she plans to attend a chocolate convention in Switzerland, and next September she will enter Pennsylvania State University to pursue a major in food science. She is proud of the quality of her product and wants to keep improving it.

"My chocolate is a hundred percent pure, with no artificial flavoring," she wrote in the recent issue of a business journal. "This makes my product unusual. My chocolates not only come in milk, dark, and white, but also in every color. The many molds I have allow me to offer customers a variety of shapes and sizes.

"My prices range from twenty cents to fifteen dollars. In the past two years, I have expanded my business to include caramels, pecan turtles, chocolate lace, fudge, and chocolate-chip cookies. All my products are completely handcrafted and made with the finest ingredients." Kim says peanut-butter truffles are her most popular product at the moment.

The sophistication of her publicity campaign might be the envy of a Fortune 500 company. In addition to her blue letterhead stationery with the oversize "K" and the lollipop with a smiling face, Kim has business cards, stickers, and a professional-looking press kit containing photographs and reprints of several news stories about her company, many of which she has generated by a personal appeal.

Recently, she became the sponsor of a local recreation department basketball team whose players wear the Kim's Khocolate Korner logo on their uniforms.

"I got my sister Jennifer to go fifty-fifty with me on the sponsoring fee," Kim recalls. The sponsoring fee was $80. Jennifer is 12 years old. As of February 1, the team's win/lose record was five and five. For Kim's chocolate company itself, so far all the action is in the win column.

—Letty Cottin Pogrebin

BEST COPY AVAILABLE

¿From People Magazine, Dec. 3, 1984?

Lookout

A GUIDE TO THE UP AND COMING

A SWEET 16 MAKES HER SCHOOL 18,000 CANDY BARS

"If I didn't luuuvvv chocolate, I wouldn't be in this business," says Kim Merritt, a 16-year-old with brownish blond hair and a hint of a magnolia accent. As proprietor since she was 11 of Kim's Khocolate Korner in Cumberland, Md., Kim peddles goodies in nearly 200 shapes to local shops, clearing about $1,000 a year. But that is peanuts compared with her latest assignment. Kim spent two months filling a contract from Bishop Walsh High School, where she is a senior, to produce 18,000 candy bars, which the school's 420 students have been selling for the past month to raise funds. The project involved 3,000 pounds of chocolate, 20,000 sheets of gold foil wrap, 30 ingot-shaped molds and so much of Kim's house that the family rec room began to look like an edible Fort Knox.

At $1 per candy bar, Bishop Walsh High School pocketed 52¢, and Kim 48¢, giving her a $3,000 profit, which she will spend on a tour of Swiss chocolate factories this summer. To fill her tall order, she melted a blend of two chocolates in the school kitchen, poured the goo into molds, froze the candy bars with the help of Mom and 37 classmates who wrapped and then stored them at home.

Kim has been dabbling in chocolateering since her grandmother first bought her some chocolate along with three animal molds. She was soon hustling her bonbons on street corners, leading to her first lesson: "We learned the hard way not to sell chocolate in 90-degree weather." Her line now includes peanut-butter truffles and multicolored chocolate chips.

After graduation Kim, a National Honor Society student, hopes to attend college part-time and move on to a larger market. She has already had a nibble from a Washington, D.C. venture capitalist. "Right now it's just in the talking stages," she says wistfully. "But I'd really like to be a millionaire." □

Back at home, Kim admits candy complicates classes: "They're discussing nouns; I'm thinking about chocolates."

Photograph by Teresa Zabala

BEST COPY AVAILABLE

/From Playboy Magazine, Sept. 1985/

Computer-Aided Chocolate Biz

What started out as a love of chocolate has turned into a profitable chocolate-making business for 17-year-old Kimberly Merritt of Cumberland, Maryland. Called Kim's Khocolate Korner, business has boomed (Kim sold 18,000 chocolate bars in one fund-raising drive at high school!) and Kim has had to add inventory. "I now have 300 molds, and a variety of chocolates as well as caramels, fudge, pecan turtles, and chocolate-chip cookies," Kim says. Another addition to her business: an Apple IIc, ImageWriter printer, and mouse.

Kim decided to buy a computer because she thought it would help her get organized and reduce her paperwork. "Now," she says, "I couldn't imagine running my business without one!"

Much of Kim's business comes to her via word of mouth and direct mail. She has a preferred-customer mailing list of about 200 "faithfuls." They receive flyers about holiday specials and new product announcements that Kim makes herself with Broderbund's *Print Shop* software. Apple's *AppleWorks* is another program Kim uses to keep track of orders and inventory. She eventually hopes to use her IIc for all accounting and tax-record purposes.

Kim's love for chocolate got her business started but her computer keeps it going.

Computers haven't just helped Kim's business, they've given her an idea for a surefire campaign. Kim made computer-shaped chocolate for a fund-raiser for her sister's computer club. According to Kim, "It probably was one of the most successful fund-raisers I ever did! Three thousand pieces were sold almost instantly, and the club earned enough money to purchase a new Apple computer!" Always the entrepreneur, she adds, "If Steve Jobs reads this article, I want him to know that I would love to make Apple chocolates. I bet they'd be *big* sellers!"

—SUZETTE HARVEY

BEST COPY AVAILABLE

Senator KASTEN. Kim, thank you very much.

Our next witness is Mr. Dan Dipert, president of Dan's Odd Jobs, San Marcos, TX. Dan.

STATEMENT OF DAN DIPERT, PRESIDENT, DAN'S ODD JOBS, SAN MARCOS, TX

Mr. DIPERT. Thank you, Mr. Chairman, for having me here today.

My name is Dan Dipert. I am president of Dan Dipert's Odd Jobs. I am also a senior at Southwest Texas State University. I am currently serving as senior class president and president of our school's entrepreneurs' club. I am very honored and proud to be here addressing you this afternoon.

I understand the importance of the votes you have coming up, so I am just going to summarize what I wrote for you for the Senate minutes.

My main business has been Dan Dipert's Odd Jobs. I call it odd jobs because I will do a variety of different things for money. In fact, our slogan is in the newspaper "We'll do Just About Anything."

The first job we ever did a guy called me up and said I need you to clean up some river property. We have a river running right near our campus. So, I went over to his house, and it was infested with wasps. He didn't tell me anything about that. So, he was standing there with this industrial sized Raid can, and I was charging him $7 an hour. I said, listen, I will get rid of your wasps, I will be your wasp buster, but we are going to have to go up to about $20 an hour, and he went for it. And I am proud to say I only got stung by one wasp.

As I say, we do a variety of different things. I set up my own campus organization so I would be able to sell products on my campus. In a State school in Texas, you have to be a registered student organization to be able to sell something on campus. So, I just started my own and that is the entrepreneurs' club.

We sell spring-break trips. I just got finished selling $45,000 worth of spring-break trips in 3 weeks down to South Padre Island. We are selling beach shorts. We install peepholes in people's apartments so they can see who is knocking on the door. We do a lot of different things like that to make money.

Skip Waddell who helped me figure out what I should say in this speech told me to talk maybe about what motivates a guy like me to go out and do something like this, run around and hustle like that. I think it is a desire to control your life, to be in control. Verne hit it on the head. There are not that many great jobs out there, so why not go out and create your own. Basically, that is what I think I am doing.

I have seen people—my buddy, my roommate, his dad has been educated at excellent universities. He spent time at Texas Instruments for 20 years, and he was just forced to retire because of their business not being so good. I don't want to have to be told when to retire. I want to be able to make that decision myself.

I think there are unlimited opportunities available to anyone who is willing to take the risk and stick their neck out and be to-

tally committed to their venture. I think this is a perfect time in my life to go ahead and do that. I am young, I am not married, I don't have any mortgages out or anything, so I am able to go ahead and take those risks.

Now, I would like to address some of what I think my strong points are, and then I will talk about my weak points as an entrepreneur. I think I do pretty good at marketing and selling the products and services that I offer. The way I sell things is through enthusiasm and perseverance. I won't sell anything I am not really excited about.

I don't mind working hard long hours. That is prerequisite No. 1 of being able to make it. Those are the things I am good at.

I am a bad bookkeeper. I am terrible. I sometimes mix money from spring-break trips into money I made killing wasps. So, sometimes I don't know exactly what it is that I did and exactly how much I made on each item. I need to work on that.

I tend to trust whatever anyone tells me. I just take it as their word. I had some problems with the person I sold spring-break trips for on that. He didn't do exactly what he told me. I took a little heat. I need to work on that.

My mother who is the pretty lady in the green dress here informed me of another weakness I have. She called it to my attention last week. When things are really selling good, when I am moving products and services and really doing well, I tend to forget to call my family. They are 4 hours away driving time. So, Mom is busy correcting that problem right now.

Senator KASTEN. It sounds like no news is good news to me.

Mr. DIPERT. Skip wanted me also to address maybe what I thought the Government could do to help us out. I was glad to hear you say that about insurance earlier today to Mr. Swain. As we all know, insurance costs are really skyrocketing. I am no expert in Government affairs by any means, but if there is something we could do to maybe control those rising insurance costs, we should. My dad is a motor coach tour operator, and this year alone, his insurance costs went up $100,000, and that hurts. So, if there is something maybe we could do about that.

In conclusion, I would like to thank you all. I see the red light coming on, so I better quit. Thank you for having me here. I appreciate the opportunity. I have really enjoyed it.

[The prepared statement of Mr. Dipert follows:]

March 27, 1986

Good afternoon, my name is Dan Dipert. I am a senior at Southwest Texas State University majoring in Finance. I am currently serving as Senior Class President at SWT as well as president of our school's Entrepreneur's Club. I am very honored and proud to be addressing you all this afternoon and I appreciate this opportunity.

My main business has been Dan Dipert's Odd Jobs. I call it Odd Jobs because I will do a variety of different things to make money. Currently, I am running my Odd Job company which consists mainly of home and lawn maintenance. I am also installing peepholes in apartment doors and selling beach clothes for a company in California. Last month, I sold over $45,000 worth of Spring Break trips on two campuses. As you can see, I don't really concentrate on one product. If I see a product that I think will go over well on my campus, I will sell it.

The thing that motivates me to work hard at my business is an overwhelming desire to be in control of my life. I see so many of my classmates scrambling so hard to compete for the limited number of good jobs available in our area. I have a friend whose dad got his undergraduate degree at MIT and his graduate degree at Harvard. Last summer he was forced into retirement when Texas Instruments was having problems. I don't want to be told by someone when I have to stop working. There are unlimited opportunities available for those willing to take the risk and be totally committed to their venture and I feel that now is the perfect time in my life to pursue those opportunities. Also, I don't believe that the really successful entrepreneurs are motivated by wealth. Rather, I see them as competing with their own self to see if they can do things better.

Running a business is something I think every business major ought to do while they're in college. Although I have been enhanced by my schooling, I feel I have picked up much more knowledge from selling products and services while in school. In particular, the home and lawn maintenance part of my business has taught me enormous lessons. The majority of our business comes in the summer and the work is hard. It taught me the value of good, honest, hard work like nothing else. When I come home at the end of the day with mud all over myself and dollar bills filling up my pockets it feels really nice because I know I have earned it.

Now I'd like to address what I consider to be my strong points and then I'll talk about my weak points as an entrepreneur. I feel like I'm good at marketing and selling the products and services I offer. I have not lost money yet on any of the things I have done because I'll only sell something I am really excited about. Enthusiasm and perseverance is how I sell things. I also

don't mind working hard, long hours as long as it is my venture that I'm working on (school is another story!) Those are the things I work hard at being good at. Now I am going to tell you my weak points. First of all, I am not a strong bookkeeper. I have at times mixed money I have made on lawn care with money I have made selling Spring Break vacations. This, of course, makes it hard for me to know exactly how much I made on each item. I must improve my bookkeeping procedures. One of my other weaknesses is that I tend to trust whatever people tell me. I had problems with the person I sold Spring Break trips for because he wouldn't do what he said he was going to do and I took some heat for it. I should have checked his company out before I did business with him because he is notorious for doing that. One more weakness that came to my attention last week is that I tend to forget to call my family when things are really selling well. I'm so busy moving the product or service that I forget the most important people in the world to me. My mother is now making sure that I work on that.

Although I am no expert by any means on government affairs, I do think there are certain things that could be done by the federal government and especially the state governments to encourage entrepreneurship among young people.

First of all, some sort of legislation needs to be passed that will help stop skyrocketing insurance costs that are preventing many small businesses from opening their doors. Other small businesses are having a hard time operating at a profit because of rising insurance costs. For instance, my dad owns a small motorcoach charter company (11 coaches) and his insurance cost rose $100,000 this year. Although I agree that the consumer must be protected, some action needs to be taken so that insurance costs can be controlled before too many businesses have to close their doors.

State governments can play a larger role in developing entrepreneurship in their state supported universities by requiring their business departments to invite a certain number of business leaders to come speak to classes each semester. Most entrepreneurs love the opportunity to get up and talk about themselves so getting the business leaders to accept invitations should not be a problem. I can honestly say that listening to entrepreneurs who have experienced all kinds of business situations has taught me more about how to be successful than any of my finance courses. Each of them will tell you the importance of honesty, hard work, and persistence in achieving success in anything.

In conclusion, I would like to thank you all for giving me the opportunity to come here and speak. It has been a wonderful experience. I would also like to thank Skip Waddel for helping me figure out what I should say in the speech. Thank you.

Senator KASTEN. We thank you for your testimony.

Our last witness on this panel is Mr. Mark Idzik. He is the president of Strictly Software, Inc. of Washington, DC. Mr. Idzik.

STATEMENT OF MARK E. IDZIK, PRESIDENT, SYSTEMS SOLUTIONS PLUS, INC., WASHINGTON, DC

Mr. IDZIK. Thank you, Senator.

I appreciate the opportunity to share my views on this subject this afternoon.

My company which has been renamed Systems Solutions Plus late last year has expanded into system integration, computer hardware and software, as opposed to just brokering software which we had started. I started at about the age of 19. I started working here on Capitol Hill and more or less had originated the idea of going into business for myself while attending Georgetown University here in Washington, DC.

Because of logistical and financial difficulties, I started the business out of my apartment and also pulled together about $1,000 to get the business going for furniture and other related expenses. Since that time, capital requirements have been very tough to meet. They have usually been met by family, friends, credit cards, and sympathetic bankers.

My motivation for this entrepreneurial venture stemmed from different areas, the most convincing being the necessity to challenge myself, put something out in front of myself and prove that a young person can achieve in a few years what often takes others a lifetime.

Another compelling force was overcoming the standard bias against young people being responsible for their actions and also to be able to put their experience in business. I wanted to overcome that problem.

My evolved business, Systems Solutions Plus, will have projected sales of approximately $1.2 million for the 1986 fiscal year. This is a 500-percent growth rate over 1985. We have four full-time employees and a new office warehouse in Georgetown.

But this really was not an easy task to accomplish. We moved into systems integration because software was too specialized of an area. We are expanding the company to cover different areas on computerization. Our clients range from small business and corporations to Government agencies and local universities. American University and Georgetown University are very large clients of ours.

The process of establishing these client contacts took much persuasion and persistence primarily because of the standard bias against my age, experience, and financial background. A large help has been the networking that we have been involved with through ACE, both through the conferences and through the national network that was developed. That has been a great help in establishing contacts in the industry and also client and customer bases.

Other obstacles that I have encountered include undercapitalization, creditworthiness, and inflexible college course scheduling. I am not as fortunate as some of my associates here in that I am not

attending Georgetown at this time because of the time factor and the inflexibility of course scheduling.

Other problems have been complexity in the Federal, State, and local tax structures which are burdens for a company that has a tight cash-flow and is trying to grow and expand. I strongly believe that both the local and Federal Government can assist small businesses and young persons in business as exemplified by the recent Senate Finance Committee's write-off concession which would greatly benefit small business and young people in business to overcome those burdensome tax regulations and tax burdens.

Programs to develop ideas and ventures, for example, the incubator programs mentioned earlier, assistance, and financial and credit support would provide an incentive for young persons who are not in a financial position that is strong enough to sustain themselves.

Please don't get me wrong. I don't feel that overwhelming Government intervention and involvement would be necessary. It is just an understanding and support of the movement and assistance in the areas I have mentioned.

I think that widespread public acceptance, Government and institutional support—not regulation but support—would greatly assist those of us in small business.

In summary, I believe that financial support, creditworthiness, and age are the major obstacles I have encountered and would like to present to you today. Thank you again for this opportunity.

I appreciate it.

[The prepared statement of Mr. Idzik follows:]

STATEMENT OF
MARK E. IDZIK
SYSTEMS SOLUTIONS PLUS, INC.
BEFORE THE
SENATE COMMITTEE ON SMALL BUSINESS

March 27, 1986

I would like to thank the Committee for this opportunity to share my views on entrepreneurship with you this afternoon. My company, Systems Solutions Plus, Inc. was originally incorporated as Strictly Software, Inc. in October of 1984 to broker computer software. At age 19, I had started working as an aide for the Honorable Congressman Dan Rostenkowski of Illinois and in several related positions in the few years before I had originated the idea of going into business for myself while attending Georgetown University here in Washington. Because of logistical and financial difficulties I started the business out of my apartment with a total of $ 1,000 pooled from savings and a fellow student/partner who was with the company for the first year. Since that time, capital requirements have been met by family, friends, credit cards and sympathetic bankers.

My motivation for this entrepreneurial venture stemmed from several different areas. The most convincing reason for this venture was my necessity to challenge myself, and prove to myself that a young and energetic twenty year old can accomplish what may take others years to. Another compelling force was the standard bias against young persons being as or more responsible and effective in business; I wanted to overcome it.

Systems Solutions Plus will have projected sales of $ 1.2 million in fiscal 1986 (a 500% growth rate over fiscal 1985) four full time employees, and new office/warehouse in Georgetown, but this was and will not be an easy task. The company has moved from software only to systems integration, hardware and accessories with clients ranging from small business and corporations to government agencies and local universities. This process alone of establishing client contacts was one of persuasion and persistence, but the standard biases of age and experience were overcome by satisfied customers.

The other obstacles of undercapitalization, credit worthiness, inflexible college course scheduling (I am currently unable to attend Georgetown) , overly complex federal and local tax structures, tight cash flow and age are ever present burdens to establishing a small and growing business. I strongly believe that both local and federal government can relieve some of the strain on the young entrepreneurs in America. Through simplification and ease of tax regulation and structure, as exemplified in the Senate Finance Committee's recent small business writeoff concession, would greatly benefit the small and young businessman. Programs to develop ideas and ventures, such as the Incubator Program mentioned earlier, and to assist in

financing and credit support would provide incentive to persons that aren't in a strong enough financial position to establish themselves.

I believe I am speaking for many other young entrepreneurs when I say that widespread public acceptance and government and institutional support would greatly assist those of us who are already involved in business and are in a position where burdens such as capitalization are a necessity, where college administration flexibility would be valued and relaxed federal standards and regulations (namely tax) could provide a more challenging and productive business cycle.

BEST AVAILABLE

Senator KASTEN. Mark, thank you very much.

Verne, you called your organization a young person's network. I think in different ways every one of the witnesses has been talking a little bit about the necessity of a formal or informal network, not necessarily ACE. But if I were a business student at Marquette University in Milwaukee, how would I find out about your organization? How could I get plugged in, if you would, to the network of groups? You said you had groups in several States. How does someone go about getting in touch with you or your group?

Mr. HARNISH. We have been very fortunate through the media to have a lot of articles printed over this past year, and it has been primarily through the medium of free advertising—because we haven't had the budgets to advertise in a big way—that we have been able to get that word out. We also work closely with about 535 professors. Of course, there is a big multiplier effect because they have those students in their courses. So, we have just encouraged young people to find a professor on campus who may be involved in that subject, and if they do find out about us through those other mechanisms, just write us. Membership is directly from the individual to the national organization.

Then, if a group of individuals wants to get together and form a group, that is their business. We keep the paperwork low and the bureaucracy to a minimum.

Senator KASTEN. That is really what we are trying to do here, too. We don't do so well at it sometimes.

I guess the first thing we should ask you, Kim, is where are the samples?

Ms. MERRITT. Well, its being Easter time, we are very nearly sold out, thank goodness, and I just got back from Boston where I was at an ACE regional conference, and they ate all my samples up there.

Senator KASTEN. Seriously, I would like to ask each of you—I don't think anyone in the audience or anyone here can be anything but impressed with this panel. When you think of all of the people that you represent and how many people there are like you who aren't able to be here at this moment, I think it is wonderful. As I was saying earlier, we have a person making chili in the back room of his garage in Green Bay, WI, and he is doing wonderfully well. There are lots of things going on in this country that we hope that this hearing and other efforts that we are going to be making on the committee start to showcase, because this is a story that is important, I think.

We will just start with Mark. Specifically, Mark, did you find any apprehension by your older or more experienced peers? You mentioned a little bit that originally some of your customers were difficult. Were there any times at which you sensed that you simply weren't going to be accepted as you began?

I intend to go right through the panel with this same question. Did you find any apprehension from your older or more experienced peers in your business? You are fortunate because your business is kind of a business that is new and a business that is emerging, not necessarily like some of the others. But in other words, how difficult was it for you to be taken seriously your first day out

or your first month out, or maybe it is a problem right at this moment?

Mr. IDZIK. Well, it is not as much of a problem now as it had been in the beginning. The basic approach that I took toward it was being persistent and being able to provide not only referrals but to go to a client and express my views, our product line, and explain what type of services we can provide.

The age barrier was overcome by persistence, providing the client with excellent support and service. That is what overcame the age barrier.

Senator KASTEN. In the beginning, it was difficult, you felt, to be taken seriously?

Mr. IDZIK. It was difficult in the beginning, but as we provided the client with more support and better service and they were very happy with it, they would refer us to their friends and their associates. That more or less provided us with a base of customers and the age barrier wasn't a problem, and wasn't as overwhelming as it was in the beginning.

Senator KASTEN. Dan, same question. Did you have any difficulty being taken seriously? I guess it would depend on different kinds of jobs, because it might be more difficult to sell your spring trips than it was to take care of the wasps or whatever. You might have a chance of having different kinds of experiences.

Mr. DIPERT. Right. The things that I am dealing with really I haven't had any problem at all. We are in a small college town of about 40,000. There are 19,000 in our school.

The way we market it, everyone who works for me—I have six employees when I am really busy—and everyone who works for me is a university student. We advertise that, and our customers like that. They like to put a little something back into the university.

Most of the things I am dealing with I am selling on campus where I am the same age as my customers. As far as the people who supply me with the different things like the person I sold the spring break trips for, he is mainly looking for someone who has hustled. He called the school and he got my name somehow.

I haven't seen any apprehension yet. Now, I am about to graduate in May. I plan on starting a collegiate travel service, spring break trips, Christmas trips, summer trips. Then, I might have some more problems with it, but so far I really haven't, mainly because of the business and the different things I do.

Senator KASTEN. Kim, any apprehension by people older or more experienced peers? Was it difficult in the beginning to be taken seriously? You got into it kind of in a backward way, so maybe you started in without having to face some of those questions, but they have to be there for you now.

Ms. MERRITT. Yes and no. My age has been a help in the fact that it has gotten me a lot of publicity and a lot of older businessmen like to give advice to young people in business which is great. I have gotten a lot of good advice from older and experienced business people from around the country and in my town.

But it has also been a problem being taken seriously. When you are 14 or 15 years old and you are trying to sell chocolate and trying to get it into the stores, people just lots of times don't take you seriously. It was also a big problem, especially in the past year,

when I was going for my bank loan and borrowing $75,000. That was showing everybody I was serious, but that again was a problem going to get that money because of the fact that I was 18.

So, it works both ways, but it can be a definite problem.

Senator KASTEN. I kind of get the feeling that you are about to tell me when you were young you used to have these problems, but now that you are established and have reached your 18th birthday, the tough times are behind you and you are going to be taken seriously. It is a wonderful answer, but I think that is kind of what you have told us.

I thank you, all of you, for enlightening us with your success and for your insight on a very special niche in entrepreneurship. We look forward to continuing to work with all of you and hear from you and, without doubt, hear about you in your future success.

Our final witness on today's panel is Mr. John Ciccarelli who is the president of the Small Business Development Center at the University of Massachusetts in Amherst, MA. Mr. Ciccarelli.

STATEMENT OF JOHN CICCARELLI, STATE DIRECTOR, MASSACHUSETTS SMALL BUSINESS DEVELOPMENT CENTER, SCHOOL OF MANAGEMENT, UNIVERSITY OF MASSACHUSETTS AT AMHERST, AND PRESIDENT, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Mr. CICCARELLI. Thank you, Mr. Chairman.

Just to clarify, I am the State director of the Massachusetts Small Business Development Center and currently president of the Association of Small Business Development Centers which represents the 46 SBDC's throughout the country.

I would first like to take this opportunity to thank you, Senator Kasten, and the Senate Small Business Committee for, I think, what is an outstanding and very responsible proposal that has been made to keep the SBA a viable, supportive agency to small business and, at the same time, obtaining some deficit reduction and cuts necessary. I wish to thank you on behalf of the 46 SBDC's and the numerous small businesses that they assist.

The SBDC program is a very unique partnership of what you were looking for today I think. It is a partnership of government at all of its levels, Federal, State, and local, the educational community, and the private sector to provide management and technical assistance counseling and education and training programs to small business.

In 1985, the SBDC program provided assistance nationwide to 65,500 small business owners. Through their training and workshops and conferences, they educated over 172,000 small business owners. Since its inception, we have reached almost 0.75 million small business owners and potential small business owners in this country.

What we are seeing is exactly what you have seen in your hearings and what we have seen today. The entrepreneurial spirit is alive and well. But I think what it is also saying to us is that the need for resources which the entrepreneur is looking for is critical if we are going to support them. The SBDC program, I think, has been able to do that.

We have, beyond the basic counseling and training that we do, we are in a very unique position because of our partnership to provide the kinds of resources, very specialized resources, that the entrepreneur in Wisconsin or Massachusetts or Pennsylvania is seeking. Let me give just some examples.

In Pennsylvania, for instance, they have developed a CADCAM program for manufacturers where the small manufacturer can take advantage of this very sophisticated technology at literally no cost and only through some nominal costs in training to help them understand the process. They are able then to take a sophisticated technology and utilize it in their business development.

Nebraska has been instrumental, the Nebraska SBDC, in creating a Nebraska venture group which is a nonprofit organization which is linking venture capital money with entrepreneurs in Nebraska. There are also similar activities in New Hampshire and Massachusetts and Missouri.

In Wisconsin, the Wisconsin Innovation Service Center is a highly unique opportunity for inventors and people developing new products to have their product evaluated not only from the technical standpoint but from a legal standpoint, business standpoint, and environmental impact standpoint. They provide this in Wisconsin for no charge to individuals developing new products and for others around the country for only $100.

I think these are some of the very specialized types of programs and resources that the SBDC program has been able to bring to help the entrepreneur. And there are numerous cases like this throughout the country.

I think, in addition, in talking about resources, you always have to look at financial resources. Again, I would like to reiterate I think the SBA program, their 7a Guarantee Program and their SBIC Program, have been critical in that regard. What they do is they don't provide cheap money; they provide flexible money. In the early stages of business, it is the ability to obtain the necessary cash flows that will determine the very possible success or failure of that business.

Those programs have allowed people to do that. I heard today a discussion of Steven Job and Apple. Well, Apple was a recipient of an SBIC loan.

Additionally, you mentioned incubators, and again the SBDC Program has been very much involved. In Massachusetts, as a matter of fact, this morning at 8:30 I was in Chicopee, MA. I sit on the governing board of their incubator. We are now in the throes of bringing in our fourth tenant, providing space at below market rates, providing support services, of administrative support, xeroxing, reception, telephone answering, receiving, as well as management and technical assistance support to those businesses.

It is a very exciting concept, because what that is doing is becoming a focal point for entrepreneurship in the Chicopee, MA area. Again, I think that is a resource and it is a way to again maximize the resources of a new business by minimizing their overhead and giving them the opportunity to develop in an atmosphere that is right for it.

The SBDC Program, I think, has been able to do and bring the resources together because of its unique partnership. We are very

proud of the role which we have played in each of our States to support small business.

If you have any questions, Senator, I would be happy to answer them.

[The prepared statement of Mr. Ciccarelli follows:]

BEST COPY AVAILABLE

Association of Small Business Development Centers (ASBDC)

1050 17th Street, N.W., Suite 810 Washington, District of Columbia 20036

Executive Committee

PRESIDENT
John Ciccarelli, State Director
Massachusetts Small Business Development Center
University of Massachusetts
School of Management, Room 205
Amherst, Massachusetts 01003
413/545-6930 Ext. 130

VICE PRESIDENT
Warren G. Purdy, Director
Small Business Development Center
University of Southern Maine
246 Deering Avenue
Portland, Maine 04102
207/780-4420

SECRETARY
Frank Hoy, Director
Small Business Development Center
University of Georgia
Chicopee Complex
Athens, Georgia 30602
404/542-5760

TREASURER
Paul McGinnis, Director
Small Business Development Center
University of Arkansas at Little Rock
Library - Room 552
33rd & University Avenue
Little Rock, Arkansas 72204
501/371-5381

MEMBERS AT LARGE
Robert E. Berner, Director
Nebraska Business Development Center
University of Nebraska at Omaha
Omaha, Nebraska 68182
402/554-2521

Jan P. Goodman, Director
University of Houston
University Park
Gulf Coast Small Business Development Center
4800 Calhoun Road, Suite 127 H
Houston, Texas 77004
713/749-0286

Gregory L. Higgins, Jr., Director
State Coordinator's Office
Florida Small Business Development Center
The University of West Florida
Building 38
Pensacola, Florida 32514-5752
904/474-3016

PAST PRESIDENT
Susan M. Gaeth, State Director
Pennsylvania Small Business Development Center
The Wharton School
320 Vance Hall Dietrich Mail 6374
Philadelphia, Pennsylvania 19104
215/898-1219

LEGISLATIVE COUNSEL
G. Thomas Catan
Allen Nance
202/887-1500

Statement Of

JOHN CICCARELLI
PRESIDENT
ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

AND

STATE DIRECTOR
MASSACHUSETTS SMALL BUSINESS DEVELOPMENT CENTER
UNIVERSITY OF MASSACHUSETTS/AMHERST

Before

THE SENATE COMMITTEE ON SMALL BUSINESS

Topic:

ENTREPRENEURSHIP

March 27, 1986

Washington, DC

TESTIMONY

Good afternoon. For the record my name is John Ciccarelli. I am State Director of the Massachusetts Small Business Development Center program headquartered at the School of Management, University of Massachusetts/ Amherst, and I am currently the President of the Association of Small Business Development Centers which represents the 46 Small Business Development Centers throughout the country.

On behalf of 46 SBDCs and the thousands of clients served by them, I wish to thank Senator Kasten and the Senate Small Business Committee for their outstanding work in responsibly preserving an independent viable SBA while providing significant cost reduction to address our national deficit.

Last year, with an increase of only 7 SBDCs from which a tremendous amount of activity is not generated in the first year because of startup requirements, 65,500 entrepreneurs were serviced in fiscal 1985 nationally. This represents a 30% increase over fiscal 1984. In addition, over 172,000 small businessowners participated in conferences, workshops, and courses sponsored and conducted by the SBDC program. Since the SBDC program's inception in 1979 over 220,000 small businesses have been counseled and 530,000 individuals have participated in training sessions offered by the SBDC.

These statistics identify two important points:

1. That the level of entrepreneurship activity is at an all time high in our nation; and
2. That the demand for greater access to resources is a key component in supporting this most vibrant segment of our economy.

The challenge posed to the SBDC is to continually strive to provide both basic services of counseling and training while simultaneously developing access to unique resources to support the ever changing demands of the entrepreneur. The SBDC program, because of its unique partnership of government, education, and the private sector, is in an advantageous position to act as the catalyst and service delivery system to accomplish this task.

Beyond the quality one-to-one management assistance and educational programs provided, the following are examples of how the SBDC program provides unique resources to entrepreneurs.

- Second Annual Buy Maine Trade Show - 95 Maine companies are linked with over 1,000 buyers from the northeast.

- Massachusetts Capital Formation Service - In 3 years they have assisted entrepreneurs in raising over $28 million in debt and equity financing.

- Pennsylvania SBDC CADCAM Program - Allows small manufacturers to utilize the sophisticated technology of CADCAM to develop more efficient products production systems.

BEST COPY AVAILABLE

- The Missouri SBDC and state government are linking together to encourage technology development utilizing the Small Business Innovation Research Act. In the first year of SBIR two awards were granted to Missouri companies. Today 20 awards have been granted to Missouri companies because of the joint efforts of the SBDC and the Missouri state government.

- The Wisconsin Innovation Service Center - This program is free to Wisconsin firms and only $100 for firms out of state. A unique assessment process provides legal, safety, environmental impact, business risk, demand analysis, market acceptance, and competitive factors for new product ideas.

- Nebraska Venture Group - This group was established by the SBDC and is a non-profit venture capital club which links investors with entrepreneurs. Programs similar to this are underway in Massachusetts, New Hampshire, and Missouri.

There are many other examples which are part of the exciting story of resource development for entrepreneurs which is being accomplished by the SBDC program.

In addition to linking entrepreneurs with unique resources, the continual efforts on the part of the SBDC program to better prepare their clients to understand the multiplicity of management functions they must undertake, ie. planning, marketing, sales production, human resource development, financial management, etc, provides the entrepreneur with the opportunity to increase their levels of success by better preparing them to face the challenges which our economy will demand.

A continued problem for new companies is finding financial resources. The need for cash flow in the start up stages of any company is critical to its chances for long term survival. To assist companies in receiving long term flexible financing SBA's 7(a) guaranteed loan program and Small Business Investment Company program have played critical roles for many new entrepreneurs. Why? It is not cheap money, in fact, a premium is payed. It is because of its flexibility as a source for long term financing which enables businesses to create a better cash flow situation to insure that maximum dollars are applied to research and development, product enhancement, marketing production, etc. to insure that the fullest potential of entrepreneur is enhanced. A GAO study has indicated that approximately 30 to 40 percent of the dollar amount of long term bank financing (6 or more years) to small businesses carry an SBA guarantee.

These programs must be enhanced and maintained to insure that this critical resource of flexible financing is available to enterpreneurs at their early stages. As David Birch, the noted small business researcher so appropriately identified in his first job generation study, the ability to provide resources during a company' first five years of operation, which are the most volatile, will enhance their ability for success. Providing flexible long term financing is a component to enhance success.

To combine the management and financial resources being created to support entrepreneurship the concept of "incubator" space is a concept whose time has come. In its generic sense, an incubator facility provides the entrepreneur with access to below market rate space, shared administrative

services, and management and technical expertise in an atmosphere for growth to encourage entrepreneurship. The facility provides the entrepreneur with an opportunity to minimize overhead while maximizing existing resources, both internally and externally, to enhance business success.

SBA and the SBDC are playing an important role in assisting this concept to flourish. SBA, in 1985, conducted programs around the country attracting thousands of government, private sector, and educational officials to provide a forum to show how the incubator concept can be accomplished. In addition, five SBDCs around the country are now significantly involved in managing and/or providing services to incubator facilities. Those five SBDCs include Pennsylvania, Georgia, Minnesota, Massachusetts and North Carolina. Several other SBDCs are presently exploring incubator possibilities with state, local and university officials.

The following are two examples of this unique concept in action.

Chicopee, Massachusetts

The Chicopee, Massachusetts Development Corporation in cooperation with the city have leased 43,000 sq. ft. of a renovated mill building to develop an incubator facility. This space, leased out in 1,200 sq. ft increments, will provide new firms with an opportunity to obtain space at 30% below current rates in the city, and for an additional 50¢ per sq. ft. companies will receive access to a receptionist, typing and xeroxing services, conference space, and shipping and receiving services. In addition, management assistance will be provided to tenants by the Massachusetts SBDC and other service providers. Financing is also available through a revolving

loan fund managed by the Chicopee Development Corporation. Most importantly, however, an atmosphere of mutual support by tenants to assist each other will exist as well as the facility becoming a focal point for entrepreneurship activity, not only for tenants, but for the community as a whole.

Chaska, Minnesota

On July 17, 1985 the College of St. Thomas, the lead institution for the SBDC, opened the first 20,000 sq. ft. of incubator space in an abandoned school. This facility presently houses 20 small enterpreneurs in businesses ranging from computer software development to light manufacturing. Tenants have access to a computer lab, two resource libraries, management assistance services of the SBDC, and a seed capital fund. The college has recently purchased the building, and with assistance from the local government will prepare the remaining 100,000 sq. ft. for similar usage. Again, the facility has become the focal point of entrepreneurship activity in the city of 10,000.

Resource development is a critical factor to support the everchanging needs of the entrepreneur. The SBDC program has shown the tangible impact of business success when linked to the resources of the an SBDC. In research conducted by the University of Georgia SBDC on clients of nine mature SBDCs who had received counseling one year earlier, the following was indicated: sales increased 25%, profits by 83%, and employment by 23% above the rate of all businesses in those states. Most importantly, the study found that state and federal direct taxes generated by the increased performance exceeded the investment in the program by a ratio of $9.4 to $1 for federal taxes generated and $10.9 to $1 for state taxes.

BEST COPY AVAILABLE

By creating partnerships such as the SBDC program, government leverages new and exciting resources from state and local levels and from educational institutions and the private sector to create an atmosphere for grcwth in our economy. We must continually strive to look at new ways to continue to link with resources while recognizing that each component can't accomplish it on its own. The SBDC program is proud of the role it has played in acting as a catalyst to coordinate resources to reach the broad array of enterprenerus in each of the 44 states and two territories served by the SBDC program.

J9/3/18/B

BEST COPY AVAILABLE

Senator KASTEN. Thank you.

You touched on the incubator. Do you look at this incubator program as something that is going to continue to expand and continue to grow? Obviously, the goal is to get people from the incubators out where they are self-sustaining and on their own. But do you look at this as a growing kind of program not only within the groups but within our society?

Mr. CICCARELLI. I think so, Senator. What you see right now five SBDC's are intimately involved in incubators in their space. Massachusetts, for instance, has commissioned a special legislative study group to look at incubators and how the State can become involved.

I think it is an excellent opportunity in communities. Again, I will take the example of Chicopee. They are taking an old mill building of 43,000 square feet and going to be utilizing that to help develop new types of businesses that are not right now existing in the Chicopee area. Chicopee has lost a tremendous amount of jobs from their mature industries, and they are now looking at ways to support that.

I think you are going to see the incubator concept as one that is going to definitely be an important piece of economic development activity in various communities around the country.

Senator KASTEN. John, the SBDC's have been assisting the development of business ideas and working with entrepreneurs. I think that certainly in Wisconsin the SBDC's are held in very high regard and are an important part of the overall effort. Generally speaking, they are also closely associated with educational institutions.

What kinds of experiences can a student gain—I am particularly impressed with the last group of panelists—through an SBDC, and who works more with the small business development centers, the students and people associated with the university or the public at large? My sense is in Wisconsin that it is as least a 50-50 split or maybe even more the public at large than the kinds of students or young entrepreneurs that preceded you immediately on this panel.

Mr. CICCARELLI. My own experience is that it is the public at large that is looking for the services from the SBDC. As far as student involvement, it varies from SBDC to SBDC. In our case, for instance, our capital formation service, which is a specialized program that helps small businesses seek financing from unconventional sources, debt-end equity financing, utilizes four to six graduate students a year who assist us in working through the numbers, doing market analysis for us, and working on these types of cases.

One example I know is the University of Pennsylvania at the Wharton School. Most of their counseling is done by MBA students. So, they are dealing directly with the small business community.

It varies given the resources, but in every SBDC that is university-based, we encourage the utilization of students in supporting the activities of the center. That seems to be happening around the country, whether it is doing market analysis, doing numbers, doing the analysis of the financials, assisting the counselors in their work with their clients.

Senator KASTEN. Thank you. Thank you very much for your testimony here today.

I would like to point out in closing that with the large number of entrepreneurs who are willing to take huge risks to chase their dreams and the results of those risks we have viewed today, particularly among some of our younger entrepreneurs, the future of American business looks bright. If we can take heart in our future, America will continue to be an inspiration for the world in how to do business and to do business with pride.

I would like to thank all of the people who testified at today's hearing. As I said earlier, we look forward to continuing to work with you.

This hearing is closed.

[Whereupon, at 3:18 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

○

BEST COPY AVAILABLE

61-535 (300)